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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

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THE POLITICAL FOUNDATION FOR DISARMAMENT

NO serious student disputes the fact that the Disarmament Conference, which is to assemble at Geneva next February under the Chairmanship of Mr. Arthur Henderson, will be the most momentous assembly which has taken place since the Paris Peace Conference. Not only will it contain representatives of all the nations of the world, including Russia and the United States. Its decisions will probably determine, not merely whether universal disarmament is practicable or not, but whether the ideals which underlie the League of Nations are to prevail, or whether Europe is going to return to the old system of an armed balance of power, which would be the certain prelude to another world war.

It is not proposed in this article to consider what may be called the technical aspects of disarmament, whether, for instance, trained reserves or stores of military material should be taken into account, or what the precise figures of men, guns, aeroplanes to be possessed by various nations should be. Armaments, in the words of the old phrase, are but the instruments of policy. All experience shows that agreements to limit or reduce armaments are conditional upon prior agreement about political policy. The Coolidge Naval Conference of 1927 was a failure because there was no prior understanding about the freedom of the seas and other fundamental political issues between the British Commonwealth, the United States and Japan. The

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London Conference was a success, so far as these three Powers were concerned, because both Mr. Ramsay MacDonald and the Japanese Delegation had reached a preliminary political understanding with Washington. It was a failure, so far as Italy and France were concerned, precisely because there was no basis of political agreement about Mediterranean affairs.

The purpose of this article, therefore, is to consider the political issues which underlie the disarmament problem. For unless some understanding about these issues is arrived at before the Conference meets or at any rate before it adjourns, no agreement of any importance will be reached about the figures for armaments themselves. The consideration of these political issues, too, will be based on the assumption that Europe is going to remain a collection of strongly national States. The events of the last few weeks show the extent to which economic and financial forces may transform the political assumptions on which post-war Europe has rested, either by forging new international bonds or raising to power in certain European countries revolutionary elements which derive their ideals from Soviet Russia or Fascist Italy. These elements are endeavouring to establish an entirely new international system, and their influence might be rapidly, and indeed decisively, strengthened by economic distress.

No attempt will be made in the article to estimate what the progress of these movements may be during the next few years—such progress is imponderable. But the possibility that events may upset the normal development of present-day Europe, and with it the work of the Disarmament Conference itself, cannot be ignored.

The Lesson of 1914

I. THE LESSON OF 1914

EVER since the outbreak of the world war in 1914 mankind has, in the domain of international affairs, been torn between two conflicting principles.

On the one hand there has been the old conception of a world consisting of a number of independent self-centred sovereign States, each relying upon its own armed strength to defend its security and its rights, in which war is recognised to be inevitable from time to time, while diplomacy is concerned to promote the ends of its own particular country, if possible without war. Tradition and history are quoted to support the view that, whatever men's hopes while the reaction from the world war lasts, human nature is unchanging and will sooner or later reassert itself in international rivalry and a desire for aggrandisement, which in turn will inexorably lead to the renewal of periodic wars in which, as in the past, the prize will be to the strong and the swift, and disaster to the weak and the unprepared.

On the other hand, there has come into being a more deeply thought-out and more widespread movement for the promotion of world peace than has ever been known before. Philosophers and statesmen have arisen in almost every land who realise that, if the first view were allowed to prevail, it would mean not only war and suffering for individual nations but the destruction of civilisation itself, for economically the world is becoming more and more a single unit, while the effectiveness of weapons of destruction is growing with incredible speed. They realise, too, that war is really the most unjust and the most expensive method of settling international problems, and that it invariably breeds, not peace, but a new crop of wars.

The result was the League of Nations. The basis of the League was the conviction that war was inherent in

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the condition of international anarchy. So long as there was no semblance of political unity among men every nation inevitably looked at every international issue from a selfish point of view, fear and suspicion reigned supreme, and, as an inevitable consequence, armaments multiplied. At the same time, although we live to-day in a world in which, thanks to scientific inventions, the need for constant adjustment affecting frontiers, tariffs, migration, the rights of individuals and a host of other things, has never been more pressing, such adjustment had become almost insoluble except by war. War is chronic under such conditions, not because anybody wants war or likes war, but because it is the only method by which important political change can be effected in a world which has no political machinery of any sort for the conduct of its common affairs.

The world war of 1914, like its predecessors, was the result of just such causes as these. The political settlements of 1815 and 1870 had become out of date. On the one hand, democracy was demanding both the abolition of the great military monarchies of Germany, Austria-Hungary and Russia, and the liberation of the oppressed nationalities in Europe, Ireland and Asia. On the other, Germany was demanding a "place in the sun" in the outside world comparable with that of Britain or France or Russia and commensurate with the increase in her own power since 1870. There was no League of Nations and no method save diplomacy whereby these issues could be discussed, and that was secret. Force was the only way of dealing either with revolution in eastern Europe or with the larger political and economic issues which required adjustment. The consolidation of Europe into two great military camps, the Triple Alliance of Germany, Austria-Hungary and Italy, and the Dual Alliance of France and Russia, served to stabilise Europe for a time after 1890, because neither side dared to challenge the other. But gradually the military competition between the two increased, and

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their fear and suspicion of each other grew with it. This competition was intensified by the gradual association of Great Britain with the Dual Alliance, after Germany had set out to build a fleet comparable to her own with the object of obtaining security for her rights and her destiny in the outside world. Finally, despite the efforts of pacifists of all kinds, military and naval preparations reached the point at which success or defeat in war was mainly a question of speed in mobilisation, for it became clear that the combination which got in its blow before its rival was fully mobilised would be able to win the war and dictate its own terms within a few weeks.

The assassination of the Archduke Franz Ferdinand, the heir to the Austro-Hungarian throne, drove the Hapsburg Government to send an ultimatum to Serbia, and to mobilise its army as a proof that it meant business. From the moment of Vienna's mobilisation order it was almost impossible to prevent war. The political issues at stake were swept into the background by the imperious demands of the military time-table. If Russia allowed the Austro-Hungarian army to complete its mobilisation without a counter-mobilisation, that army would be able to march to Warsaw without opposition and destroy the defensive organisation of Russia. If Germany allowed the Russian army to mobilise without a counter-mobilisation, she would be caught, as in a nutcracker, between France and Russia. All her plans for security in the event of war were based on her having time to defeat the French army before the Russian army was ready to strike, and then to move her victorious troops back from the West to the East before her frontier was breached. Hence Europe was driven by the military time-table into war, although no single government determined that the issues should be decided by war.

Students of politics and practical statesmen, who had time to think, alike realised that if the war resulted merely in the traditional peace, however wise, and if the nations

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then reverted to their old mutual isolation, another world war would be inevitable. The underlying issues would be different, but the only way in which they could be settled would be the same—resort to war. Hence the first chapter in each of the Treaties of Peace provided for a fundamentally new method of mediating in international affairs. For the essence of the idea underlying the League of Nations is that the nations should meet regularly round a common table, that they should create and undertake to use machinery which would render possible the settlement of international disputes by conference, mediation, arbitration or judicial means in the full light of the public opinion of the world; that they should renounce the right to settle their disputes by war, and that they should bind themselves to deal collectively with any nation which resorted to war in defiance of its obligations under the Covenant.

Thanks mainly to the insistence of President Wilson, the Covenant was embodied in the Peace Treaties, and became the basis of the political structure of the post-war world. Whatever may be thought of the details, there is no question that in broad outline the ideas which underlie the Covenant are the only ones which can lead the world out of the morass of recurrent war. War is endemic in an anarchic world. In the international sphere no less than in the national the only alternative to chronic war is constitutional procedure, which will enable political issues to be solved by a pacific appeal to reason and justice and will curb those who try to get their own way by force. The League is the beginning of an attempt to substitute the reign of law for the reign of force in international affairs.

After Versailles

II. AFTER VERSAILLES

ALTHOUGH the ideals of the League of Nations triumphed at Paris they did not command universal assent. The United States felt that an acceptance of the obligations of the Covenant would involve too radical a reversal of her long tradition of political detachment from the vortex of European militarism, and she rejected both the League and the Anglo-American Treaty of Guarantee, which promised assistance to France in the event of unprovoked aggression. Russia, captured by the ideals of the Communist Revolution, refused to join the League. In her eyes it represented an anti-revolutionary association of the capitalist nations, whose object was to exploit the proletariat of their own lands. Even in Europe the League had a struggle to survive. Germany was only admitted in 1926 as part of the Locarno settlement; Italy, after the Fascist march on Rome, though she remained a member of the League, swung vehemently back to militarist and nationalist ideals. France, Poland and the countries of the Little Entente combined a belief in the utility of the League ideal with a system of military alliances designed to render impossible any forcible modification of the Treaties of Versailles and Trianon. A number of other Powers, such as Spain, the Argentine Republic and China, have, for one reason or another, been lukewarm adherents of the League. Only the British Commonwealth and the smaller nations of northern Europe have consistently advocated the full ideals of 1918.

None the less, in every respect except disarmament, progress has been made in the last ten years. The United States maintains her attitude of detachment, but she has moved sensibly in the direction of co-operation. She took the initiative in promoting the Dawes and Young Plans and the Kellogg Pact for the total renunciation of war as

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an instrument of national policy, and President Hoover's declaration that no United States Government could be indifferent to the violation of this pact was a recognition that if the day of permanent co-operation has not yet dawned, the day of old-fashioned isolation is at all events over. Germany has been relieved of many of the special disabilities imposed on her as a result of defeat, notably of the occupation of the Rhineland, which was to have continued until 1935. The League itself has become part and parcel of the political structure of Europe, if not of the world, so that it is difficult to-day to conceive of a Europe in which the Foreign Secretaries and Prime Ministers of its member States would not come into personal conference under the ægis of the League several times a year.

The League, too, has a number of valuable achievements to its credit, and they are by no means confined to non-controversial subjects such as health and financial relief. There is certainly a much better understanding between nations of one another's problems, and disputes have been peaceably settled in the Balkans, Iraq, the Aland islands and elsewhere. The number of adherents to the principle and machinery of compulsory arbitration has steadily increased.

If we look at the positive side alone there is no question that since 1918 we have moved far from the old concept of an anarchic world of sovereign States possessed of no common machinery to ensure consultation and co-operation or to prevent war, and that remarkable progress has been made towards a new international order, in which mutual understanding and the well-being of humanity as a whole can begin to counterbalance the old selfish egotism of some sixty self-regarding sovereign States. The black spot in the picture is the fact that armaments, so far from diminishing, have actually increased. The expenditure of the principal European Powers and the United States in this respect has risen by more than £150,000,000 per annum in the last six years, Great

The Menace of Armaments

Britain and Japan being the only countries whose expenditure has remained at approximately the same level. And that is a very serious matter, for armaments are the "acid test" as to whether the nations have real confidence in the new machinery for the preservation of peace and the protection of their lawful rights.

III. THE MENACE OF ARMAMENTS

THE Covenant of the League of Nations contains the following article* :—

The members of the League recognise that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.

There is no question that a universal agreement to limit and reduce armaments is an indispensable element in a world organised for the settlement of international questions by law and justice and not by war. The essence of "peace" within the national State is that its citizens should renounce violence and be prevented from resorting to it, and that they should settle their disputes by recourse to the law courts or to Parliament. It is the same internationally. The success of the League principle depends upon the nations abandoning the right to take the law into their own hands by resort to war, and that means disarmament. Either the League system will destroy the war system or the war system will destroy the League, for in the long run they are irreconcilable.

The reason is twofold. In the first place, the existence of large armaments implies that every nation means, in the last resort, to be judge in its own cause, and that it does not trust the rest of the world either to be just or to come to its assistance if it is attacked. In the second

* Article 8.

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place, once a nation begins to rely upon its own armaments, a competition in armaments sets in which leads inevitably to an armed balance of power and war. For the only way in which one nation can obtain security as against another by means of armaments is by having superior armaments; in other words, security for one nation is only obtainable through the insecurity of its neighbours. But these neighbours will, in their turn, inevitably also want security, and they will get it, either by increasing their own armaments or by alliances, until the world becomes hag-ridden by suspicion and rivalry. The old military time-table will then reappear as in 1914, and it will only take a similar accident to plunge mankind into another world war.

The one remedy for this situation, and the only basis for a peaceful international order, as Article 8 recognises, is the reduction by all the nations of their armaments to a level at which they will no longer be a serious menace to one another, so that pacific procedure will be given a real chance and it will cease to be a formidable matter for the nations collectively to restrain an aggressor.

IV. THE FRENCH VIEW OF EUROPEAN PEACE

THE development of the League of Nations, however, represents only one aspect of the political development of Europe since the war. The second, and in many ways the central, fact has been the absolute military predominance of France and her allies—Poland and the Little Entente—over Germany and the ex-enemy Powers. How complete this predominance is may be seen from the fact that within three months of a declaration of war France and her associates could mobilise over 150 fully armed and equipped divisions as against a German force of not more than twenty divisions, that they possess highly developed air forces equipped either to fight or to bomb at a moment's notice,

The French View of European Peace

while Germany has no military aviation at all, and that they have besides great reserves in the way of heavy guns and trained conscripts, immense arsenals in full working order, while Germany has no heavy artillery, no conscripts trained since the war and no arsenals in the real sense of the word. The German Reichswehr is no doubt highly efficient and its organisation is well adapted for rapid expansion. There are probably also considerable stocks of small arms and ammunition, and Germany could certainly mobilise large numbers of men partly trained by such voluntary organisations as the Stahlhelm. No soldier, however, doubts that France and her allies could to-day overwhelm all effective military opposition in Germany without the slightest difficulty and occupy every strategic point in the country. The same is equally true of Hungary and Bulgaria.

This alliance system was built up by France as a bulwark for the Treaties of Versailles and Trianon in the early years after the war, and her case for doing so was a strong one. It was unreasonable to suppose that Germany, Hungary and Bulgaria would voluntarily acquiesce in the drastic revision of their frontiers effected by the Treaties, or pay the reparations imposed on them by the victorious allies, unless they were convinced of the necessity of doing so. The League had no force at its disposal, the United States had retired for good across the Atlantic and had rejected the Anglo-American Treaty of Guarantee, Great Britain and the Dominions, though showing a practical interest in the pacific activities of the League, were clearly themselves withdrawing, if not into complete isolation, at all events into a state of military detachment from Europe, in which they could not be relied upon to maintain the vigilant guardianship over the Peace Treaties on which their stability depended. So France, full of bitterness at being deserted by her powerful allies, took the policeman's task upon her own shoulders.

The military hegemony of France has, in fact, been the

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basis upon which the peace of Europe has rested since 1919. In its present form it is the outcome of the events of 1923-25. France, rightly or wrongly, became more and more convinced that Germany did not really mean to fulfil the Treaties and that she intended to whittle away her obligations under them. The result was the occupation of the Ruhr. That occupation convinced Germany that, for the time being at least, she had to fulfil her obligations, and it convinced France that a policy of destroying Germany altogether, either through economic means or by the partition of her territory, would only redound to her own disadvantage. The outcome of the Ruhr occupation was the Locarno Treaties and the Dawes and Young Plans. Germany thereby voluntarily undertook to renounce Alsace-Lorraine, to make no attempt to revise her eastern frontier by force—only by pacific means—and to pay what experts regarded as practicable reparations. France on her side adopted a comparatively conciliatory policy towards Germany, which found expression not only in the Dawes and Young agreements but also in the evacuation of the Rhineland before the date fixed by the Treaty of Versailles. Great Britain became once more a military factor on the Continent of Europe by her undertaking, subject to the supervision of the League, to defend, with Italy, the integrity of the demilitarised Rhineland against both Germany and France, though she made it clear that she assumed no further responsibility for the preservation of the *status quo* in eastern Europe than was imposed upon her by the Covenant of the League.

But despite the "Locarno spirit" and the Locarno Treaties, the military predominance of France and her allies, as the guarantee both for the observance of the Treaties of Peace and for the security of France, Poland and the Little Entente, still remains intact. Just as the police and the army are the ultimate "sanction" for the rule of law and the peaceful functioning of parliamentary institutions in every democratic state, so the armies of France,

The Root Problem

Poland, Czechoslovakia, Yugoslavia and Rumania are the "sanctions" behind the public law of Europe as embodied in treaties, and behind the pacific and quasi-parliamentary proceedings of the League of Nations. France regards herself, not as the bully, but as the policeman of Europe.

V. THE ROOT PROBLEM

WE can now see the root problem which underlies the disarmament question. France, as her statesmen have unceasingly declared, is primarily concerned with security, and security means not merely freedom from risk of invasion, but the stability of the settlement of 1919. France is said to be willing to consider the possibility of modifying that settlement by pacific means, by negotiation, conference or arbitration, provided that there is ample security that it cannot be altered by force, for pacific methods mean either that no alteration can be made without her consent and that of her allies, or else that there will be no fundamental change, for arbitral and judicial proceedings alike cannot do otherwise than proceed upon the basis that the treaties of 1919 represent the law. Hence her passionate attachment to the principles of the Geneva Protocol of 1924, which provided for "arbitration, security and disarmament." Europe was to disarm, but only on condition that no alterations should be made in the treaties except by agreement or arbitration, and that every signatory, including Great Britain, should pledge herself to immediate military action against any nation which resorted to war.

The core of France's policy is in fact to maintain or create a military situation in which it is impossible to alter the Peace Treaties by force, and every utterance by her political leaders and in her political press goes to prove that, while she may be willing to make minor concessions in the direction of disarmament, she intends to keep, in association with her military allies, as long as she can, that absolute military preponderance over the ex-enemy Powers which is

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her security, not only against invasion, but against the violent alteration of the treaties. And in this attitude she is whole-heartedly backed by her allies, who support the alliances, not only for reasons of security, but because they are themselves opposed to the revision of the treaties, since any and every revision would, they know, take the direction of giving back to Germany, Hungary and Bulgaria some part of the territories that were allotted to Poland, Czechoslovakia, Yugoslavia and Rumania at the end of the war. France and her allies are still further confirmed in their resolve to maintain their absolute military preponderance just as long as they possibly can, because, in their view, the only real alternative to their own preponderance is the preponderance of Germany and her friends—a situation in which they would be faced by a demand, at the point of the bayonet, for revision far more extensive than they would ever be prepared to concede, and by their own subordination to Germany and her associates.

The standpoint of Germany and of the other European ex-enemy Powers is equally easy to understand. On the one hand they demand equality in armaments; on the other hand they demand a revision of what they regard as unjust terms of peace imposed upon them by force. They say that it is an inherent attribute of a sovereign State to be free to take what measures it thinks necessary for its own security, and that it is now quite intolerable that they should be given no security, while France clamours unceasingly for absolute security for herself. They further claim that general disarmament was promised them at Versailles and that they accepted the military terms of the Treaty of Versailles on that understanding, and that if it is not fulfilled they will be morally free from their disarmament obligations. The relevant words of Part V of the treaty read as follows :

In order to render possible the initiation of a general limitation of the armaments of all nations, Germany undertakes strictly to observe the military, naval and air clauses which follow.

The Root Problem

The official reply of the Allied and Associated Powers to the observations of the German delegation on June 16, 1919, moreover, states that

The Allied and Associated Powers wish to make it clear that their requirements in regard to German armaments were not made solely with the object of rendering it impossible for Germany to resume her policy of military aggression. They are also the first steps towards that general reduction and limitation of armaments which they seek to bring about as one of the most fruitful preventives of war, and which it will be one of the first duties of the League of Nations to promote.

These pledges, they contend, imply not only all-round disarmament, but equality in armaments as between States of the same international standing and size.

Finally, Germany and her associates have never ceased to protest against what they call the "war-guilt lie," that is, the statement in the Treaty that Germany was solely responsible for starting the war; against the Polish Corridor, the Upper Silesian boundary, and the transfer of territory containing Magyar and Bulgar majorities to form part of the States of the Little Entente; and against excessive reparations. They claim that a revision of the treaties is essential, alike in the interest of justice and of lasting peace, and their more extreme spokesmen declare that, unless revision is effected within a reasonable time by pacific means, they will leave the League of Nations as a dishonest sham, and set to work to secure equality and revision by the only means left open to them—force.

This then is the core of the political problem which underlies the disarmament question. There are other difficulties, the attitude, for instance, of Russia, Italy and the United States, to which a brief reference will be made later on. But the immediate and most serious problem is to find a solution for the fundamental differences that divide France and Germany and their respective friends. These differences have not been lessened during the last few weeks. For the attitude of France to the Hoover

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proposal has been taken in Germany as an attempt to take advantage of her financial difficulties to rivet her once more in a position of subordination, while the pleas of Germany have been taken in France as a dexterous attempt to use these same difficulties as a means of escaping from the financial obligations of the Treaty of Versailles.

VI. THE ULTIMATE BASIS FOR DISARMAMENT

IF we consider the problem from a dispassionate and neutral standpoint, the only real and final solution is that the defects of the treaty settlement of 1919 should be considered in the pacific manner prescribed by the Covenant, and that a voluntary agreement about revision and a general reduction of armaments to a police level should proceed *pari passu*. If only the settlement of eastern Europe could be submitted to some form of impartial arbitration and revised by consent, the mainspring of armaments would disappear. France and her allies cling to their military supremacy because they are afraid that, if that supremacy were to disappear, the map of Europe would be torn up by force and their countries invaded. Germany and the ex-enemy States demand equality and freedom, partly for reasons of national self-respect, and partly as a preliminary to treaty revision, either by agreement or, failing agreement, by force. It is perfectly clear that the nations of Europe will never cease to look with fear and suspicion on their neighbours and to make difficulties about minorities, and will never reach lasting tranquillity and disarmament, until the eastern frontiers are accepted as final, just as the western and Scandinavian frontiers are to-day accepted as final. In so far, then, as Europe is concerned, the fundamental political condition upon which the success of the Disarmament Conference depends is a general agreement which will permit of the frontier problems and one or two other

Favourable Symptoms

matters being settled so wisely and with such a measure of consent that no nation will any longer harbour the design of upsetting them by force or have reason to suspect its neighbours of wanting to do so. Then the main motive for large armaments will have disappeared. This issue may not emerge at the opening session. There are many who believe that to raise it too soon would be to break up the Conference itself. It may, then, be better to wait for it to be forced to the surface by events, as a result of deadlock on the technical matters. But it is certain that the issue will arise and will have to be dealt with, if the Conference itself is to succeed in bringing appeasement and disarmament to Europe.

VII. FAVOURABLE SYMPTOMS

IT has been held in some quarters that the summoning of the Disarmament Conference for next February was a mistake, and that the time is not ripe for an attempt to induce France and her allies to abandon the system on which they have relied for their security since 1919. On the other hand, people who are in close touch with central Europe usually agree that, unless there is a definite move in the direction of disarmament next year, Germany will make up her mind that the allies do not mean to fulfil their pledges or to act up to the principles of the Covenant, especially Articles 8 and 19, and that she will turn her back once for all upon the League of Nations and pacific methods, and prepare for an attempt to recover her freedom and her place in the sun both in Europe and elsewhere by any means in her power. We take the second view. To attempt to keep Germany in the strait-waistcoat, political, economic and military, in which she has been confined since 1918, is to lay the foundations for another world war. The only course is that Germany and the ex-enemy Powers should be enabled to recover that permanent place in Europe to

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which they are inherently entitled, and to reconsider, in the full light of world publicity, the inequalities and grievances which they believe they suffer under the Treaties of Peace.

Indeed, it may well be that, now that the Disarmament Conference is to take place, France and her associates will be forced to reconsider the system upon which their security is based far more profoundly than they have yet been willing to do. For it is obvious that their present system cannot last indefinitely—it is in truth already beginning to break down. Nobody believes, even among chauvinist circles in France, that it will be possible to keep a great nation like Germany in permanent subjection. Italy, moreover, has ostentatiously detached herself from the French system—she is already in active opposition to it. Finally, Russia is rapidly recovering her military power. In the last four years her expenditure on armaments has risen from 698 million roubles to 1,125 million roubles per annum, and the Five Years Plan has, to a large extent, clearly been designed from a military standpoint. Hungary, and to a less extent Bulgaria, also nurse the hope of revenge.

If this process continues, it is only a question of time until the effectiveness of the French alliance system is neutralised and even out-matched. As Russia recovers her strength, it will become more and more impossible for Poland and Rumania to act against Germany or the other ex-enemy Powers. Neither of them could face war on two such fronts at the same time. They are bound to become increasingly immobilised as military factors in the European situation. Yugoslavia, too, is checkmated by Italy. As this situation develops, and the prospect of an immediate victory, in the event of hostilities, recedes, the readiness of France and her allies to plunge into war for the sake of one another, and therefore the value of the alliance system as a guarantee of security, will inexorably grow less. Indeed, there are many who believe that marching orders would meet with a very lukewarm response to-day.

Favourable Symptoms

The present policy of France, therefore, successful as she can claim it to have been in preventing war in post-war Europe, and in giving herself and her associates military security, though at an immense price in the hatred and resentment to which it has given rise, is beginning to break down. Every day it is adding to that volume of hatred and resentment which may some day cause a war crisis—a contingency which neither France nor her allies in the least desire. And even assuming that explosions can be prevented, if the French hegemony is continued too long it will certainly bring into being a rival military combination. Suppose, for instance, that Germany, Russia, and Italy should join forces, not for love, but in order to destroy the French hegemony, the French would be the weaker military combination of the two, and Germany would then dispute with Russia the military control of eastern Europe. There are already many people in France who believe that, even from the narrow standpoint of the security of France, Poland, and the Little Entente, no less than from the wider standpoint of the League of Nations, the right policy is to aim at some moderate scheme of revision in so far as the Peace Treaties are concerned, and at the same time to carry all-round disarmament sufficiently far to render it impossible for any nation to invade its neighbours of comparable size with any hope of success, and to make the co-operative machinery of the League of Nations for the settlement of disputes and the prevention of war really effective. This clearly cannot be done so long as Europe is armed to the teeth, for so long as her nations are heavily armed co-operative action against an aggressor, which France has hitherto regarded as the necessary basis for any alternative to her present system, means taking part in a first-class war.

There is therefore more hope of success at the Disarmament Conference than a superficial analysis of present-day facts might suggest. The events of the past few weeks show that Europe is approaching a crisis. France may endeavour to take advantage of the economic situation to

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try to prolong the subordination of Germany. In our judgment, such a policy, even though some advantages could be claimed for it in the past, must lead to war and revolution. On the other hand, France may make up her mind that the time has arrived to find a new basis for security and stability in Europe. She may conclude that the Disarmament Conference affords an opportunity, which may not come again, of coming to terms voluntarily with Germany, Hungary and Bulgaria, and of trying to create that permanently pacified and disarmed Europe which it is the main purpose of the League to bring into being. A change of this kind cannot be expected to spring ready made out of the first meeting, but, if the Conference is wisely handled, it may well come to the fore before its close. It should be the primary object of British policy to bring Paris, Berlin and Warsaw to an agreement about the frontiers of eastern Europe.

VIII. OTHER ASPECTS

THIS article has so far been entirely directed to the European, indeed to the Franco-German problem, for that problem constitutes the core of the disarmament question at the present time. If it can be solved, Europe will move forward to unity and peace under the League. If the Conference fails to solve it, Europe will inevitably slip back into the old system of the balance of power, which means war, and a greatly weakened League. But there are other aspects which will certainly have to be taken into account.

First of all, there is the United States. The United States is as determined as ever to remain outside European politics, and therefore outside the League, which she regards as a predominantly European concern. Yet with every year that passes she recognises more clearly that her interests are bound up with the preservation of world peace.

Other Aspects

She has shown it in the Kellogg Pact, though she has proposed no way of making that pact effective if the moral sanction should fail. She has shown it by her insistence upon naval "parity" with Great Britain, and superiority as regards Japan, which means that, whether she wishes it or not, if ever it should fall to the British Navy to enforce Article 16 of the Covenant, she will have to decide whether she will acquiesce in that navy's preventing American goods from reaching an "outlaw" State, or whether she will threaten war—or even go to war—to compel the League to permit American goods to reach such a State. She has shown it more recently in her support of the "Hoover" plan, which has brought into effect a debt moratorium for a year. She is also a member of the Disarmament Conference, and President Hoover has repeatedly shown his active interest in its success.

The United States will certainly press for the limitation and reduction of armaments, and she will endeavour to use her control of war debts as a lever to bring it about. But when France and Europe ask her, as they will, "What action will you take against a violator of the Kellogg Pact, for we cannot abandon our present security unless some international substitute is put in its place," no one knows what her reply will be. There certainly seems to be no movement in American public opinion in the direction of any form of international guarantee at present, although there are a large number of people in the United States who consider that she should at least agree to confer with her co-signatories if any infraction of the Pact occurs or seems likely to occur.

The Italian attitude is complicated by the naval issue in the Mediterranean. Italy is militaristic in sentiment, but she is also economically and financially weak. The failure of the Franco-Italian naval negotiations is in part explained by the desire of France to enter the Disarmament Conference in as strong a position as possible for the purpose of a bargain. Italy is not likely to block any general

The Political Foundation for Disarmament

settlement in Europe, for, if Europe could be pacified, her fundamental interests would lie outside it.

Finally, there is Russia. The recovery of Russia in a military sense is causing anxiety in eastern Europe, and, as already explained, is beginning to neutralise the French alliance system. Russia, too, expects war, for she fears attack by the capitalist Powers. But hitherto at any rate she has shown more interest in the development of her own internal communist society than in nationalist aggrandisement, and she was the only Power to propose real disarmament to the Preparatory Commission at Geneva. Whether that proposal was genuine, or, as her neighbours allege, put forward because she believes that world revolution would be easier to bring about in a disarmed world, it is impossible at this stage to decide.

The position of Russia, however, has for the purposes of disarmament a special significance, for she is not only an external, but an internal menace to other nations. Unless the capitalist world can set its own house in order and get rid of unemployment and excessive war debts and reparations, communism may well spread over a considerable part of central Europe, and completely transform the disarmament problem. Of the prospects of such a development no one can speak with any certainty.

IX. THE BRITISH POSITION

IT is obvious that Great Britain and the British Commonwealth will be confronted with decisions of the most vital importance at the Disarmament Conference. For the whole basis of British policy is at stake. Great Britain's traditional policy has always been to keep outside the internal politics of Europe, and, except when there was a threat to her own existence through the emergence of a European Power strong enough to aim, with good prospects of success, at the military hegemony of Europe, to concern

The British Position

herself primarily with the outside world. That policy, for the first time in her history, she deliberately abandoned in 1919. She abandoned it because she had become convinced that the only alternative to war, of an increasingly devastating character and recurring at more and more frequent intervals, was the successful realisation of the ideals of the League of Nations. Since 1920 she has stood whole-heartedly behind the League.

Her primary object will clearly be to do everything possible to bring about such a measure of disarmament as will give reasonable security to every Power alike—to Germany no less than to France—through the limitation and reduction of those weapons of war which are primarily offensive in their character. If every nation felt that successful invasion in the first weeks of a war was out of the question because its neighbours did not possess the means to overthrow its defences by a sudden blow, the tension in Europe would be immeasurably lessened, and the discussions at Geneva of what revisions must be made in the Peace Treaties in order to secure lasting peace would be immensely easier. Great Britain's main object must clearly be to bring about such a measure of all-round disarmament as will give the League ideal a chance of strengthening its hold upon Europe. In doing this she will at least have a strong moral position. As the Prime Minister pointed out on June 29, she has set the example and already reduced her own armaments to a dangerously low level compared with those of other Powers. Between 1914 and 1931 the personnel of the Navy has been reduced by 38 per cent., and the annual expenditure on it, in terms of constant purchasing power, by 31 per cent., compared with an increase in net expenditure of over 80 per cent. in the United States, of over 70 per cent. in Japan, and decreases of 8 per cent. in Italy and 17 per cent. in France. The British Commonwealth has now 74 fewer capital ships than at the outbreak of war, 72 fewer cruisers, about 250 fewer destroyers and torpedo-boats, and 40 fewer

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submarines. The expenditure on the Army has remained approximately the same, in terms of fixed purchasing power, but the man-strength has been reduced by 37,600 to 148,800.

But whatever the outcome of such an initiative may be, Great Britain and the British Commonwealth as a whole are likely to be confronted by alternative proposals, the answer to which may require a good deal of thought. If, for instance, France makes up her mind that the time has come to find a new foundation for her own and for European security, the basis of that alternative is likely to be the Geneva Protocol of 1924—arbitration, disarmament, and security—which means a British guarantee to co-operate militarily against any Power which attempts to alter the treaty settlement by other than peaceful methods. What is to be Great Britain's answer? Hitherto she has refused to associate herself with the French system of hegemony, and she has limited her European commitments to those created by the Locarno treaties and Article 16 of the Covenant. These have not, however, satisfied France. Are we prepared to go further? Our answer in the past has been that we would refuse any further commitment, and it is obvious that we will continue to do so as long as France claims military preponderance, or Europe is armed as she is to-day. Great Britain clearly will not undertake the rôle of policeman in an armed world. Even if she tried to do so she could not keep the peace. She would only be dragged into a war whenever any European Power liked to start one—a war in which she would run the risk of conflict with the United States as well. If Great Britain is to undertake to deal vigorously with an aggressor, the necessary conditions must be that European, including French, armaments are reduced to the police level all round, that the United States will at least acquiesce in action taken under Articles 10 and 16 of the Covenant and the Locarno Treaties, and that the Peace Treaties have been revised by general consent and so form a stable base for European peace.

The British Position

The other fundamental decision she may be called upon to make if the Conference fails and Europe definitely heads towards a new balance of military power and another war. In that event, unless all history is to be belied, Great Britain will and should divest herself of every kind of military commitment in Europe, though she would continue to co-operate in all the pacific activities of the League of Nations. Europe has to choose between two alternatives. Either she will become a community of disarmed States using the League system as the means of dealing with international problems from the standpoint of reason and justice, or she will split into two great armed combinations, which may use the League as a useful piece of diplomatic machinery, but which will really rely upon their own military strength—*Machtspolitik*—to give them security, and to impose their own solutions of international disputes upon the world, or to prevent the adoption of solutions which do not suit themselves. Of the first system Great Britain, with the Commonwealth, can be an ardent and convinced supporter. Of the second she cannot. If it is adopted she will doubtless continue to do her best to settle disputes peacefully, but she will resume—and she ought to resume—complete freedom to decide whether she will intervene or not in the event of a European war. If the true League system fails, and that is what is really at stake in the Disarmament Conference, the British Commonwealth will do more for its own security and for world peace by standing outside all military commitments in Europe—including those imposed at Locarno—and by acting in unison with the United States as an independent Power doing its utmost to bring any war to an end on reasonable terms by whatever methods may seem best at the time, than by entering into obligations which will force it to participate in every war, however it arises and whatever its purpose.

SHANGHAI

ON November 29, 1929, General Hertzog was invited by the Municipal Council of Shanghai to lend them the services of Mr. Justice Feetham, of the South African Bench. "Faced by the acute problem of reform in the Settlement," the Municipal Council "urgently needed the immediate aid of an adviser free from previous commitments or bias, who combined judicial with municipal and political experience. . . Your Government," so the cable proceeded, "as the most detached from Far Eastern controversies, is exceptionally situated to render this aid in unravelling the knot at the centre of China's tangled relations with foreign Powers. The Council by unanimous vote, including American, British, Chinese and Japanese members, respectfully invites your immediate aid."* The italics are ours. With the Judge's report before us we can now see what the Council meant by the words we have thus emphasised.

I. CHINA AND THE WEST

CHINA is a region segregated from the rest of the Eurasian continent by forests, mountains, deserts and ice, but so fertile and well watered that it is able to support nearly a quarter of the world's population. This quarter is a distinct racial group, with brains of the first order, highly industrious, and excelling in crafts, in literature, and in the arts. Before Europe emerged from barbarism,

* Vol. I, p. 2, of the Feetham report. Throughout this article references to the report will be given in footnotes, indicating the volume and page.

China and the West

the Chinese were a civilised people with a social structure based on the family system and conducted in accordance with a recognised code of good manners. When Rome was a republic they were organised as an empire governed by an autocrat through a hierarchy of scholars, a system calculated to perpetuate rather than to advance the level of culture already attained. So vast was this cultured and organised unit that China looked on herself as the civilised world. The strange and remote peoples beyond her limits were thought of as barbarians, who should recognise the Emperor of China as lord of the universe.

On the opposite side of the planet there had developed a civilisation instinct with an idea, first conceived and applied in Greece—the most dynamic idea that has ever dawned on human minds. There, men were conceived as subject, not to some ruler divinely appointed, but only to the collective authority of the local community of which they were members, expressed in the form of ascertainable laws derived from the reasoned experience of the people themselves. For more than two thousand years western civilisation has been slowly translating this basic idea into institutions. Ways have been found of moulding the law in accordance with general experience, of controlling the public purse and of making rulers accountable for their acts and obedient to law. That freedom of public discussion in which alone the rule of law can survive has been firmly established. The principal means to those ends were elected assemblies and also courts in which laws, not executive orders, were supreme.

The rule of law, by reducing the element of uncertainty in human affairs, promotes enterprise. It was no coincidence that the Anglo-Saxon people, who had carried the principle farthest, excelled in commerce. China was brought into touch with a civilisation, the essence of which was strange to her people, largely by British and American traders. The result can be seen in the present tangle of China's relations with the rest of the world.

Shanghai

II. THE FOREIGN SETTLEMENTS AT SHANGHAI

LET us now see how Shanghai came to be the knot at the centre of this tangle.

The Court at Peking wanted no commerce with Europe ; but European merchants were suffered to trade at Canton under close restraint upon their personal liberty, on the theory that the duties they paid were tribute rendered by subject races to the lord of the world. In 1839, the breakdown of this arrangement led to war between England and China, which was ended on August 29, 1842, by the Treaty of Nanking, a peace dictated on the deck of a battleship lying off that city in the Yangtze river. Under its terms British subjects in China acquired the right to live and trade at five ports, including Canton. They were not to be subject to Chinese law, but only to their own as administered by their consuls. They thus acquired extra-territorial rights, often described as "extrality."

The French and American Governments, and later a number of other Powers, hastened to make treaties with China under which they acquired all rights granted by treaty to "the most favoured nation."

Consuls were appointed to the five treaty ports, the number of which was afterwards increased. In most of these ports the consuls obtained from the Chinese Government areas, known as "concessions", as homes for their nationals and sites for their go-downs. These concessions were leased to the foreign Power, whose local consul then issued titles to his own nationals, established a court to administer their law, and made provision for municipal government. At Canton a French concession as well as an English concession was established. At Hankow five, and at Tientsin eight foreign concessions have existed side by side.*

* Vol. I, p. 27.

The Foreign Settlements at Shanghai

Shanghai was the sole exception, a port at the mouth of the Yangtze which was destined to prove more important than all the others. For the Yangtze drains 750,000 square miles, one half of China proper. More than one-tenth of humanity—some 180,000,000 industrious folk—convey their produce down this artery.* A thousand miles from its mouth, steamships collect the merchandise brought to its waters in junks and barges down tributaries, creeks and canals. If the Mississippi and St. Lawrence met to discharge their waters through the estuary of the Hudson river, the position of New York would, in point of natural advantages, be comparable with that of Shanghai, which may yet become the greatest city that the world has seen.

The old Chinese city of Shanghai stands on the left bank of the Whangpoo, which flows for sixteen miles through mud flats to the estuary of the Yangtze, and is tidal for a long distance above Shanghai. A channel deep enough for any ships which existed in 1842 is swept by the constant rush of the tide. It is now deepened by dredging, so that vessels of any tonnage can lie in the stream, which at Shanghai is 500 feet wider than the Thames opposite London.†

Captain Balfour, the first British consul at Shanghai, failed to persuade the Taotai, the Chinese official in charge, to grant a concession. As a compromise, 138 acres (marked A on the plan attached to this article) were reserved on the left bank of the river below the Chinese city, where British subjects might purchase land from the peasants, which was not thereafter to be sold or let to Chinese.‡ Titles subject to a quit rent were issued by the Taotai, through the consul, and were registered at the consulate.§

In 1845, Land Regulations were jointly enacted by the consul and the Taotai. "Three upright merchants"

* Vol. I, pp. 254-5.

† Vol. I, p. 24.

‡ Vol. I, p. 31.

§ Vol. I, p. 27.

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were appointed by the British consul to administer the municipal affairs of the Settlement.* Later, an American purchased some land in this area. His consul insisted on registering the title, and the British consul accepted the position. Other consuls followed the American example. The area reserved for the British was thus transformed into a settlement in which all nations with extra-territorial rights stood, in law, on a footing of equality.† A separate area (I on the plan) between the Chinese city and the International Settlement was reserved for the French.‡

III. CHINESE IN THE SETTLEMENTS

TWO centuries before this time the Manchus had conquered and extinguished the native dynasty of the Mings. When in 1842 the Manchu dynasty accepted defeat at the hands of barbarians its prestige in China was profoundly shaken. One result was the Taiping rebellion, which broke out in 1851 and presently submerged the country south of the Yangtze. For ten years Nanking was the seat of the rebel government; but it never acquired a leader with any political sense, and its troops degenerated into bandits. The Settlements were held inviolate, against rebel and imperial forces alike, by the foreign residents in arms, supported by parties landed from warships which lay in the port.§ In these sanctuaries, protected by foreign arms, some 500,000 Chinese were allowed by the foreigners to take refuge from the general carnage.|| Henceforward the provisions of the Land Regulations which forbid the leasing of land to Chinese were ignored. The revolt was finally quelled by Gordon under the able direction of Li Hung Chang. When peace was restored in 1864, about 90,000 Chinese preferred to remain in the Settlements reserved for foreign residents

* Vol. I, p. 36.

† Vol. I, pp. 27-8.

‡ Vol. I, p. 28.

§ Vol. I, p. 33.

|| Vol. I, p. 31 and p. 34.

Chinese in the Settlements

under the treaties.* These Settlements thus came to include an overwhelming number of Chinese residents for whose government, in Chinese territory, a handful of foreign merchants became responsible. The International Settlement now contains 971,397 Chinese and 26,965 foreigners, and the French Settlement 421,885 Chinese and 12,335 foreigners.†

This explains why the areas of both Settlements have been greatly extended by four successive additions. The International Settlement now includes 8·6 square miles and the French Settlement 3·94 square miles. But even so they cannot contain half the people attracted to the neighbourhood of the port by its growing prosperity. 1,689,100 Chinese are housed in suburbs surrounding the Settlements. For the government of these suburbs, including the old city, "the Chinese Municipality of Greater Shanghai" was created in July, 1927.‡ It covers 320 square miles surrounding the port, an area much larger than that shown on the plan attached to this article. This vast municipal area is ruled by a mayor appointed by the Government at Nanking. The entire community surrounding the port is thus upwards of 3,000,000 people, who are parcelled out between three authorities, two European and one Chinese.

So great was the pressure on space in the Settlements that a number of Europeans have taken to living beyond their limits under rather peculiar conditions. In the Taiping rebellion Gordon had projected military roads from the Settlements, which after the war the Municipal Council took over. In later years the Council began to build roads from the Settlement into the country beyond by purchasing ground for the road-beds and also for parks. The landowners were always glad to sell because the new roads and parks enhanced the value of their unsold property. These roads are shown on the plan to the west

* Vol. I, p. 34.

† Vol. I, p. 17.

‡ Vol. I, p. 49.

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and north of the Settlements. The number of foreigners living along them is 9,506. The Municipal Council of the International Settlement owns and administers 48 miles of road and several parks, which lie outside its own jurisdiction and in that of the mayor of Greater Shanghai.* The conflicting claims of the foreign council and the Chinese mayor to police these roads is fraught with danger, and a standing cause of friction.

The flight of Chinese from the rebels into the International Settlement created a problem which could scarcely be handled by "three upright merchants" appointed by the British consul. In allowing the consuls of other nations to exercise in the Settlement a jurisdiction equal to his own, the British consul had lost the right to arrange for its government with the Taotai in a conference of two. So in 1854 a meeting of the land-renters, summoned to meet the British, American and French consuls, framed regulations under which the land-renters were to elect representatives who should organise a police force, provide municipal services and impose the necessary taxation.†

The validity of these regulations was open to question by nationals other than British, American and French.‡ Many other defects were revealed by experience, and in 1866 a revised constitution (in the shape of new Land Regulations) was produced in Shanghai. In this draft the English and French areas were included as one municipal whole.§ A proposal that delegates should be elected by native guilds, for consultation on matters affecting Chinese residents, was discussed, but was dropped for reasons which cannot now be explained. The draft regulations were forwarded by the consuls to the foreign Ministers in Peking, but years were to pass before they all agreed. When in 1869 the Land Regulations had been finally approved by the Ministers, the provisions for Chinese representation had disappeared|| and the French had

* Vol. III, pp. 1 to 33.

§ Vol. I, p. 57.

† Vol. I, p. 36.

|| Vol. I, p. 115.

‡ Vol. I, p. 54.

Chinese in the Settlements

decided to keep their Settlement apart in the hands of their own consul.

Under these Regulations, foreign residents owning or renting property of a certain value within the Settlement were entitled to elect a municipal council of nine. This council was entrusted with the task of administering the affairs of the Settlement. Its accounts and its budget had to be submitted for approval to a meeting of the foreign electors. This meeting of electors had exclusive power to impose certain specified taxes, and also to approve bye-laws for the better enforcement of the Land Regulations. But bye-laws passed by the meeting of electors, to become valid, must be sanctioned by the Ministers of Powers in treaty with China.*

Any constitution is bound to reveal defects when put into actual working, especially when the community for which it is framed is rapidly growing and changing. The council of nine, with a heavy and continuous burden resting upon them, developed a higher sense of responsibility than the voters in their annual meeting. The council could realise the importance of giving the Chinese majority some voice in public affairs, and also a proportionate share of the benefits to the cost of which they had to contribute. But the council's proposals for reform were too often negated by the public meeting, or frustrated by the absence of a quorum. When reforms had received the approval of the public meeting they had then to run the gauntlet of the Ministers at Peking.† The result has been that, apart from a few amendments approved in 1899, the municipal constitution remained rigid and unaltered, as it was drafted in 1866,‡ till changes were forced by the cataclysm of 1925.

From the outbreak of the Taiping rebellion till 1928 the task of maintaining order in the greatest of Chinese cities lay with a handful of foreign merchants. In the area reserved for the British in 1843, the British Government

* Vol. I, p. 84.

† Vol. I, p. 123.

‡ Vol. I, p. 62.

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stood on exactly the same footing, in international law, as Sweden, Brazil or any other of the Treaty Powers. But in actual fact control for the most part lay with the British, who owned most of the property. From 1890 to 1914 the Council normally consisted of seven British members, one American and one German, who after 1914 was replaced by a Russian. A Japanese member was first elected in 1916. From 1927 to 1930 there were five British, two American and two Japanese members.* Thus, before Chinese members were included in 1928, the British always had a majority. Through the consuls, the British Minister at Peking had direct control of the British concessions in other Treaty Ports. In the International Settlement at Shanghai he lacked such control. There was no guarantee that measures taken by the British majority and their officers to govern a large and turbulent Chinese community there would harmonise with the aims of policy as seen from the wider standpoint of Peking. Yet Shanghai, not Peking, was the real focus of China's relations with the rest of the world. In the distant legations the problems that confronted the Municipal Council were imperfectly grasped.

Apart from the yield of their normal trade, wealth from all over China seeks the relative security of the Settlements ; and where riches collect, criminals gather as wasps to honey. Shanghai is also the principal centre of illicit traffic in opium, which breeds criminal organisations as ruthless and rich as those which exist to frustrate prohibition in America. In no city are the police faced by more baffling problems.

In the minds of the foreign residents, and especially in British and American minds, the authority behind the Municipal Council was law, enforceable through courts. A foreigner was entitled to be sued or tried in his own consular court. In the International Settlement there were 14 such courts. The Municipal Council itself could

* Vol. II, p. 166.

Chinese in the Settlements

be sued in a court consisting of the consuls sitting together. But what was to happen when the bulk of the population in the International Settlement was Chinese? In 1863 Sir Frederick Bruce, the British Minister in Peking, contended that the authority of the Municipal Council in Shanghai should "not extend beyond simple municipal matters, roads, police and taxes for municipal objects." He added "that the Chinese not actually in foreign employ shall be wholly under control of Chinese officers as much as in the Chinese city."* But, as Morse, the American historian, wrote :—

The merchants resident in Shanghai were more clearly conscious than the envoy, on his pinnacle in Peking, of the practical difficulties attendant on a strict interpretation of the letter of the treaties, and the admission of dual and rival jurisdictions, on a footing of independence, within the same area.†

The remarks of Mr. Justice Feetham on this controversy are worth quoting as a permanent contribution to the science of practical politics :—

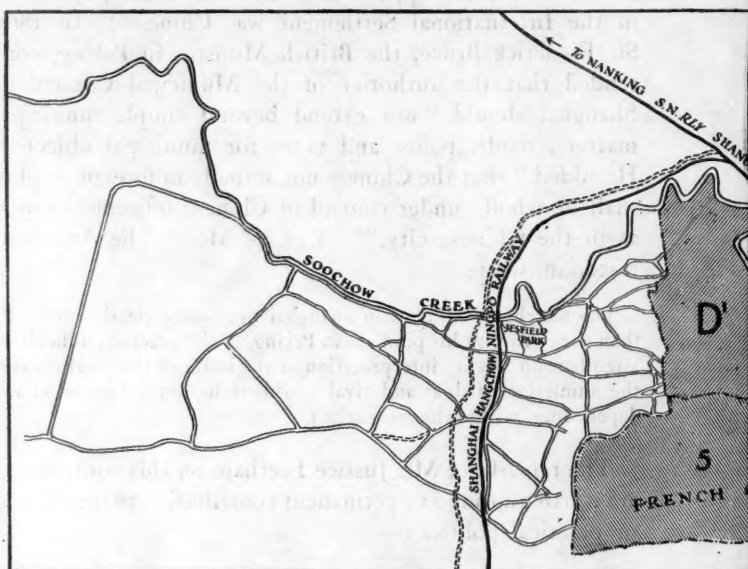
The contrast between the authority of the Council of the Settlement and Chinese official authority, as represented by its local officer, the Taotai, was the contrast between an authority exercising limited powers in accordance with a defined constitution, and subject to the control of independent courts of law, and an authority exercising powers of an arbitrary character, not subject to any defined legal limit, which controlled its own courts and was not controlled by them.

It is impossible for arbitrary and unlimited powers and legal and limited powers to exist side by side, and to be exercised simultaneously by two independent authorities in the same area and in respect to the same persons. The first will inevitably swallow up or destroy the second. The Council of the Settlement, if they were to exercise any effective control over the Chinese residents, and to collect revenue from them, were compelled to insist on restricting the power of the Chinese authorities in respect of the Settlement portion of the Chinese population, and they seem to have recognised at a very early date that this was a question of life or death—that not only the welfare of Chinese residents, and therefore, also, to a

* Vol. I, p. 95.

† Vol. I, p. 95.

PLAN SHOWING HISTORICAL DEVELOPMENT OF



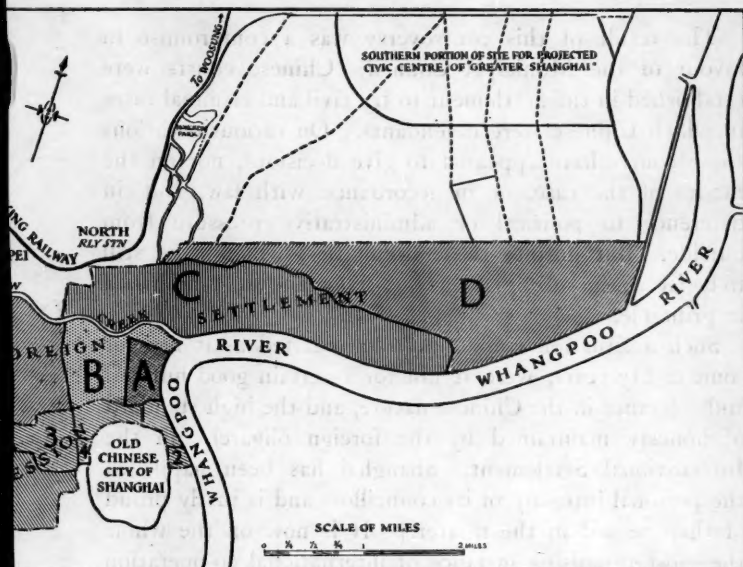
FOREIGN SETTLEMENT.

| | Acres. |
|---|--------|
| A First delimitation of boundaries. Agreement dated 20.9.1846. Approx. | 138 |
| B Foreign Settlement. Agreement dated 27.11.1848 | 332 |
| C Area roughly defined as included in the "American Settlement" by agreement between the American Consul-General and the Intendant of Circuit, dated 25th June, 1863, incorporated with the Foreign Settlement by agreement of 21st September, 1863, and formally delimited May, 1893 | 1,309 |
| D Settlement Extension, delimited 1899 | 1,896 |
| DI Settlement Extension, delimited 1899 | 1,908 |
| Total Area Foreign Settlement | 5,583 |

The site of the "projected Civic Centre," marked on the plan, is the site selected

Lines of projected roads leading

FOREIGN SETTLEMENT AND FRENCH CONCESSION



FRENCH CONCESSION.

| | Acres. |
|---|--------------|
| 1. Original Concession as delimited by Agreement between the French Consul and Taotai Lin, on 6th April, 1849 | 164 |
| 2. Extension. Proclamation dated 29th October, 1861 | 23 |
| 3. Extension. Proclamation dated 27th January, 1900 | 152 |
| 4. Controlled by French prior to 1849, but officially added together with "3," and noted in proclamation dated 27th January, 1900 | 19 |
| 5. Extension. Proclamation dated 20th July, 1914 | 2,167 |
| Total Area French Concession | 2,525 |

his purpose by the Municipal Government of the Chinese Municipal Area.
 e proposed Civic Centre to the Settlement.

Shanghai

large extent the prosperity of the Settlement, were involved, but that the very existence of their whole system of government was at stake.*

The result of this controversy was a compromise in favour of the Municipal Council. Chinese courts were established in the Settlement to try civil and criminal cases in which Chinese were defendants. On various occasions these courts have appeared to give decisions, not on the merits of the case, or in accordance with law, but in deference to political or administrative pressure from outside. But despite these difficulties, which have still to be faced, the rule of law in the Settlement was established in principle.

Such a situation could never have lasted as it has for some eighty years, were it not for a certain good humour and tolerance in the Chinese nature, and the high standard of honesty maintained by the foreign oligarchy in the International Settlement. Shanghai has been happy in the personal integrity of its councillors and is justly proud of their record in the matter.† It is now on the whole the most promising instance of international co-operation which the world has yet produced.

IV. SECURITY AND ITS CONSEQUENCES

THE enforcement of law in the Settlements depends in the first instance on the municipal police. The majority of constables are stalwart Chinese brought from Shantung, with a certain number of Sikhs imported from India, and some Japanese. The senior officers are mainly British, but there are also a few Chinese and Japanese.‡ Besides the police organised to keep order within the Settlement, the Council maintains a citizen army in which foreigners of military age are expected to serve. This force, which includes companies of Russians and also

* Vol. I, pp. 98-9.

† Vol. II, p. 73.

‡ Vol. I, p. 157.

Security and Its Consequences

Chinese, is commanded by a regular officer from the British army. It is thoroughly equipped with modern artillery, machine guns and armoured cars.* A student of ancient city republics might learn a great deal by leaving his Grote and Sismondi to spend a few weeks in the International Settlement. As in ancient Athens, Venice or Genoa he would find a city and its civic authorities always alert to the sense of danger.

The analogy cannot be pressed too far, for the foreigners in Shanghai are not wholly dependent on their own resources. Warships of foreign nations lie moored in the river opposite the principal banks, which store in their vaults the greatest accumulation of treasure in China. Whenever serious danger has threatened, Great Britain has sent forces strong enough to protect the Settlement, and others have followed her example. The Treaty Powers have thus shown their readiness to prevent the Settlements from becoming the battleground of forces contending for mastery in China.

The Government at Nanking keeps its balances in the International Settlement of Shanghai. The largest mint in the world has been built just beyond its boundary. But the only entrance to the mint is by a bridge over the Soochow Creek from the International Settlement, and this bridge is guarded by the Settlement police. The Settlements in fact are the only financial anchorage for a Chinese Government which is trying to establish itself on a permanent and constitutional footing. In times of commotion a Tuchun who seized the treasure in the Settlements would dominate China so long as the plunder lasted, and would also ruin her foreign trade.

Within these few square miles on the banks of the Whangpoo society is genuinely based on the rule of law.† Neither land nor goods are liable to confiscation, as elsewhere in China. Taxes are collected according to law to

* Vol. I, p. 155.

† Vol. II, p. 71.

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meet the requirements of a published budget. Expenditure is subject to a regular audit. There are freedom from arbitrary arrest, proper sanitation and efficient police. The press is not liable to censorship or suppression. Public affairs can be and are publicly discussed—the only condition upon which the supremacy of law can ever be maintained. Shanghai and its diplomatic counterpart, the Legation quarter at Peking, are almost the only apertures through which uncensored news about China can be published to the world.

The fact that Shanghai is the economic centre of China is due to something besides its place on the map. The physical conditions required for a port near the mouth of the Yangtze artery could be found at a number of places, notably at Nanking and Pukow.* Appended to the Feetham report are several memoranda from Chambers of Commerce and Bankers Associations,† which clearly show that the special prosperity of Shanghai is due to the rule of law established in the Settlements. These Settlements are the banking centre of China.‡ Within their limits are 20 branches of foreign banks, 39 Chinese banks of the modern type and 70 “native” banks. In Greater Shanghai there are only 7, and all of them “native” banks. Stored in the Settlements’ banks are silver reserves to the value of £16,000,000 upon which all the foreign and much of the international trade of China depend. An issue of notes to the value of £50,000,000, based on this silver secured in Shanghai, circulates widely throughout China.§ The banks are prepared to lend at far lower rates on the security of goods, building and lands within the Settlements than on similar securities beyond their limits. The value of property outside the Settlements is at least 20 per cent. lower than the value of adjacent property inside them. One curious result may be seen in the fact that in periods of widespread disturbance, while property values sink all

* Vol. I, p. 268.

† Vol. I, p. 301.

‡ Vol. I, pp. 263 to 291.

§ Vol. I, p. 303.

The Weakness of the Settlement System

over China, they continue to rise in the Settlements of Shanghai.

The rule of law in these Settlements is in fact the axis upon which the economic relations of China with the other three-quarters of humanity turn. Its removal would work serious injury to foreign trade, but to China herself ruin. The political aspect of the problem is of greater importance. There are those who believe that China is doomed to perpetual anarchy, and those who insist that unity and order can only be restored by another dynasty. These "realists" are men wrapped in the past, whose eyes have never been opened to see the world as it now is—of all dreamers the most futile and no safer as guides than people who walk in their sleep. Dr. Sun Yat-sen was a genuine realist when he told his people that order and unity could only be maintained through a government responsible to themselves. But a government of that nature can never be established till a certain number of the people and their officers grasp what the rule of law means and absorb the idea as a habit of mind.* The Chinese who live in the Settlement are rapidly doing this. Their progress has been quickened since their own representatives have sat in the Council. The truth that popular government must be founded on law is spreading from them to the rest of China. Ideas are more portable than flags.

V. THE WEAKNESS OF THE SETTLEMENT SYSTEM

THOUGH the Chinese have now been admitted to a share in the government of the Settlement, they can never forget that the system was forced on China. In spite of all the material advantages they have reaped, it is felt as a standing insult, and therein lies its weakness. The fact that a council, which till lately consisted of nine foreigners elected by some hundreds of foreign renters,

* Vol. II, p. 180.

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has established a sufficient protection against civil disturbance, crime and disease in a great sea-port which is mainly Chinese is an almost incredible achievement. But the system is too much fraught with dangers and anomalies to last. It costs money, and while the Chinese ratepayers were far more numerous and, in the aggregate, contributed more of the revenue than the foreigners, they had till lately no representation and thus no guarantee that they would receive their fair share of such amenities as hospitals, schools and parks.* The one factor that unites the whole of China, North and South, including the Chinese in Shanghai, is resentment against the "unequal treaties." It was this resentment which started the Taiping rebellion, led to the Boxer rising in 1900, and in 1911 dethroned the Manchu dynasty, whose weakness and incompetence had exposed China to these and other indignities at the hands of the foreign Powers.

A factor, less obvious but more potent than hatred of foreigners, was the influence of foreign ideas. The educated class, who had studied in missionary schools and foreign universities, lost the beliefs which for ages had supported dynastic government in China. Graduates of a modern university find it hard to believe that the government of a whole nation is divinely entrusted to a single family. In matters like these a few thousand intellectuals wield more influence than millions of illiterate peasants. In China the revolution of 1911 did more than dethrone a particular dynasty. It ended the ancient and traditional system of government.

Sun Yat-sen, the leader who inspired this revolution, was a doctor trained in the medical school of Hongkong. Devoted to China and wholly disinterested, he was classed as a visionary by officials, foreign and native, and also by journalists; so the world at large regarded him as such. His tactical errors supported that view; but in fundamentals the man was a realist. He saw that western ideas had

* Vol. II, p. 91.

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destroyed the foundations of monarchy in China, and that popular government was the only durable alternative. But he realised how difficult it is for people long ruled by a despotism to acquire the art of governing themselves, and devised a plan which, as he hoped, would help them through the transition. His organisation, the Kuomintang party, was to take charge of the revolution and unite China under a government strong enough to keep the peace. A period of tutelage was to follow, during which the party, while controlling the government meanwhile, was to train the people in the art of governing themselves. The defect in this project has been ignorance in the tutors of the principles that Sun Yat-sen taught them and expected them to teach. The party too often thinks and acts as though it were the dynasty in commission.

In 1911 when the Manchu dynasty collapsed, Dr. Sun effaced himself and invited Yuan Shi-kai to become president of the Republic. Yuan accepted the invitation, in his heart believing that no system of government was possible for China but a military autocracy. The western Powers, who shared his view, helped him with loans to establish his rule. During the war of 1914-18, when their hands were full, he announced his intention of ascending the throne. But his courage failed him at the last moment, and when he died he left China a prey to the soldiers whom he had trained to support his pretensions. The country is scourged with them still.

Dr. Sun realised the need of foreign help and advice in his formidable task. From England and America he sought it in vain, for his character as a visionary stood in his way. The Powers of Europe had put their money on Yuan Shi-kai. In 1923 Dr. Sun was offered the help he so sorely needed by Soviet Russia, and accepted the offer, though fully alive to the danger that Russia would use China as a pawn in her scheme for world revolution. On March 12, 1925, he died of cancer.

In Russian eyes, England was the champion of capitalism,

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and the arch-oppressor of weaker nations. It suited both Russia and the Kuomintang to have trouble with England, and Shanghai was the likeliest place to have it. To the minds of police officials in the foreign Settlement the task of maintaining order in the streets was more present than the wider political reactions that might follow the measures they took. The catastrophe came on May 30, 1925, when the police of the International Settlement opened fire on a mob of riotous students. The immediate result was a wave of resentment throughout China and a boycott which dealt a staggering blow to British trade. In Shanghai the relations of British and Chinese had never been so tense.

The Municipal Council, taught by their heavy responsibilities, were the first to realise the importance of friendly relations with the Chinese. They had done their best to repair the fatal mistake made when provision for Chinese representation was omitted from the Land Regulations. But their efforts were frustrated by the rigid character of those regulations. Nothing could be done without the consent of the foreign land-renters in public meetings, and these meetings were dominated by men who lacked the experience of those who sat on the Council.

The events of May 30, 1925, led to a grave situation, and wiser counsels began to prevail. At the annual meeting of the ratepayers in April, 1926, Mr. Fessenden, an American lawyer who was chairman of the Council, was authorised to take the steps necessary to add three Chinese representatives to the Council. The Ministers at Peking acquiesced, but the Chinese ratepayers in Shanghai were unwilling to accept so small a representation. The matter was compromised by an offer from the Council to co-opt six other Chinese to their standing committees. The first three Chinese councillors took their seats on April 20, 1928. The experiment was so successful that two more were added in 1930. The refusal of a sparsely-attended meeting of ratepayers to ratify this measure was overcome by a second and larger meeting, which reversed the previous

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decision by an overwhelming majority. The Council now consists of two American, five British, five Chinese and two Japanese members, in all 14. The change has led to a marked improvement in racial relations, and to general regret that it was not effected years before.

VI. GENESIS OF THE FEETHAM REPORT.

STEPS had been taken meanwhile to grapple with the problem as a whole. The Institute of Pacific Relations had inaugurated biennial conferences at Honolulu. To the second conference, in 1927, a party from Great Britain was invited, and Shanghai was one of the subjects discussed. In the course of this discussion, Professor Hornbeck, one of the American party, suggested that discussion would be more profitable if a careful survey were made of the whole municipal problem in Shanghai. A seed was thus dropped which was destined to germinate. In 1929 a third conference was held at Kyoto. At the last moment a desire was expressed that some spokesman from the foreign community in Shanghai should be present, and at the suggestion of the chairman of the Council, Mr. Jerome Green, the leader of the American delegation, invited Mr. Fessenden, who now held the position of general administrator to the Municipal Council, to attend as one of the American group. Upon his arrival, Mr. Fessenden announced the intention of his Council to invite some independent person with the necessary municipal, political and judicial experience, but with no previous bias, to survey the problem and advise the Council how it should be solved. Soon after his return to Shanghai, the Council, supported by its Chinese members, appealed to General Hertzog in South Africa to lend them the services of Mr. Justice Feetham. General Hertzog promptly responded, and the Judge arrived in Shanghai at the end of January, 1930. After eighteen months' laborious

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enquiry, three instalments of his report have now been issued and a fourth, dealing with points of detail, is to be published shortly. The first is a survey of the problem, the leading features of which we have tried to outline in this article. A few days before the arrival of Mr. Justice Feetham in China, an Indian Nationalist, Dr. Datta, a close associate of Mr. Gandhi and now a member of the Round Table Conference, set down the impressions he had formed after a tour through the country. His letter is appended to this article in order that the reader may compare the conclusions formed by an Asiatic observer with those subsequently reached by the Judge after eighteen months' intensive enquiry. We now come to the Judge's recommendations contained in the second and third instalments of his report.

VII. THE RECOMMENDATIONS

AS the Judge points out, the whole intricate problem arises from treaties made between China and a number of Powers. Of these, the most vitally concerned are Great Britain, Japan, France, and the United States. Such a tangle can only be unravelled in conference between them. He advises that the foreign Powers should at the outset recognise that the goal to be aimed at is rendition of the Settlement to the Chinese, "followed by the grant by the Chinese Government of a Charter conferring rights of local self-government on the inhabitants of the Settlement—foreign and Chinese—whether as a separate self-governing unit or as part of a larger whole."*

The present Settlement regime, as established under the Land Regulations, should be maintained on the basis of increasing co-operation between the foreign and Chinese communities, and such constitutional changes should be introduced as are necessary for the purpose of enabling the Chinese to participate effectively in the

* Vol. II, p. 139.

The Recommendations

work of local self-government under some modification of the present system, and of thus paving the way to the eventual establishment of a new system based on a charter granted by the National Government.*

As steps to this ultimate goal, Mr. Justice Feetham suggests the following practical reforms.†

The Chinese members should be more in number than those of any other single nationality.‡ Alternative enlargements of the Council to effect this purpose are shown in the following table:—§

| | Elected by vote of ratepayers. | Elected by chambers of commerce or similar national bodies. | Total. |
|------------------------|--------------------------------------|--|--------|
| Council of 22 members— | | | |
| Foreigners.. .. | 9 | 5 | 14 |
| Chinese | 5 | 3 | 8 |
| Council of 25 members— | | | |
| Foreigners.. .. | 9 | 7 | 16 |
| Chinese | 5 | 4 | 9 |
| Council of 28 members— | | | |
| Foreigners.. .. | 9 | 9 | 18 |
| Chinese | 5 | 5 | 10 |

Councillors in future should hold office for two years instead of one, so that half the Council would be re-elected annually. These elections should take place after the annual meeting of ratepayers. An election law should be introduced, containing the usual safeguards against corruption, etc., and providing for vote by ballot.||

In addition to the annual meeting of foreign ratepayers, there should also be an annual meeting of Chinese ratepayers, chosen in accordance with a scheme approved by the Council on the recommendation of the Chinese

* Vol. II, p. 140.

† The highly condensed summary which follows is by no means exhaustive of the recommendations contained in Vols. II, III and IV of the report.

‡ Vol. II, p. 181.

§ Vol. II, p. 194.

|| Vol. II, pp. 188-9.

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members. The meeting of foreign ratepayers would continue as at present, until it has approved a scheme for a smaller representative body submitted by the Council. The budget and other resolutions would then be submitted to both meetings. Should they concur, their joint decision would be binding on the Council. In the event of their differing, the resolutions would be advisory only, and the final decision would rest with the Council. The two meetings might elect separate auditors if they could not agree on a single one.* A special committee representing the various nationalities and standing committees on the Council should be constituted to advise on the engagement or dismissal of senior officials.†

The Council should have power to make bye-laws without submitting them to the approval of the ratepayers in meeting. But proposed bye-laws should first be published for public criticism, and should then be discussed by the Council in a public session held for this legislative purpose.‡ The Council should also have power to make bye-laws for the purpose of applying Chinese laws in the Settlements, subject to such modifications as circumstances might require. A body of six or nine persons should be constituted to confirm bye-laws passed by the Council. At least one-third of its members should be nominated by the Chinese Government, while the rest should represent the group of foreign consuls in Shanghai.§

The general and exclusive character of the Council's administrative powers in the Settlement should be laid down in comprehensive and unambiguous terms.||

Where possible, the Council should make agreements with the Chinese Government for collecting national taxes in the Settlement for that Government.¶ It should aim : (1) at co-ordinating its policy with that of the French concession and the municipality of Greater Shanghai ;**

* Vol. II, pp. 182-3.

† Vol. II, p. 189.

‡ Vol. II, p. 184.

§ Vol. II, pp. 212-219.

|| Vol. II, p. 224.

¶ Vol. II, pp. 222-3.

** Vol. II, p. 138.

Method of Revision

(2) at establishing joint institutions with those authorities ;*
(3) at creating an authority consisting of representatives of the three areas, to the costs of which it should contribute on the basis of rateable value.† In pursuance of this policy the Municipal Council should seek to obtain from the mayor of Greater Shanghai delegated authority to enable it to exercise effective administrative control over the external roads and the land and properties fronting on such roads, or to which access is obtained from such roads. The Council should have power to tax these properties, and pay part of the proceeds to the municipal government of Greater Shanghai to meet the cost of administering the undeveloped rural regions lying between the roads. These areas should be developed in accordance with town-planning schemes prepared by the two authorities in consultation.

These arrangements should lead on to the creation of a new authority to administer the areas covered by the outside roads, consisting of : (1) nominees of the mayor of Greater Shanghai ; (2) nominees of the Council ; (3) representatives of the residents and property owners, foreign and Chinese, of the areas concerned. A charter might be granted to this body by the National Government, thus opening the way to the formulation of a general charter for Shanghai, when the time for rendition has arrived.

VIII. METHOD OF REVISION

AS noted above, Mr. Justice Feetham considers that a problem so intricate can only be unravelled in a conference between the governments of China and those of the principal Powers.

The Settlement, when its position and functions are rightly understood, means too much to China and to nations trading with China—

* Vol. II, p. 225.

† Vol. III, Chapter IV.

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and therefore to the world at large—to have its affairs left to the hazards of piecemeal and makeshift arrangements, or to be permitted to remain indefinitely a subject for irritating and inconclusive international controversy.*

He adds an impressive warning against any attempt to fix in advance the period within which the goal of rendition can be reached.† Negotiations between the governments concerned would be rendered abortive if extremists knew that the need for negotiations would close automatically on a certain date. The fixture of that date would destroy the sense of security that has made Shanghai the economic centre of China.‡

“Any failure to maintain law and order in Shanghai, which proved sufficiently serious to interfere with the atmosphere of confidence and security essential to the conduct of large business operations” would have far-reaching economic effects in interrupting the flow of international and internal trade, and would cripple the national Government financially by drying up the sources of very nearly one half of its entire customs revenue, a large proportion of other revenue, and the bulk of its domestic loans.

Without going into further details, it is clear that, in questions affecting the future government of the foreign Settlement, the interests at stake are not only the vested interests of firms and individuals, foreign and Chinese, engaged in trade or industry within its limits, and their employees, but general economic interests of a far-reaching character, which include the interests of all those regions in China for which Shanghai serves as a trading or banking centre, the national interests of China as a whole, and the interests of other nations according to the varying degrees in which they share in China's foreign trade.§

On one further point he is equally definite in his view :—

The provisions of the Land Regulations which link the system of municipal government with the system of extra-territoriality constitute to-day essential props, which are necessary for the support of the existing municipal institutions of the Settlement : the Chinese

* Vol. II, pp. 151-2.

† Vol. II, p. 139.

‡ Vol. II, p. 74.

§ Vol. II, pp. 105-6.

British Diplomacy in the Far East

courts are not as yet in a position to afford the support which would be necessary to maintain the system if these props were withdrawn. Further, the conditions of personal freedom, and security of life and property, which have made it possible hitherto for individuals to work these institutions by their personal activities, either as councillors, voters or officials, are themselves the product of the extra-territorial system, and, until the rule of law has been established in China in such a way as to safeguard effectively the ordinary citizen in the exercise of his personal rights, and the performance of his civic duties, abolition of extra-territoriality would destroy the vitality of the present municipal institutions.*

IX. BRITISH DIPLOMACY IN THE FAR EAST

LORD IRWIN has urged that if England can discover the true interests of India she will, in doing so, discover her own. That statement is founded on the truth that the welfare of India is part and parcel of the welfare of society as a whole, of which England herself is a part. It applies, not only to India, but to the whole field of external affairs. But this certainly does not mean that British diplomacy can do its duty simply by conceding whatever demands are made on it. Lord Irwin, believing that responsible government is best for India, has firmly refused claims which, if granted, would ruin her credit and bankrupt her first responsible government.

It cannot be said too often that foreign Powers, in trying to adjust their relations with China, will find and serve their own interests only by seeing and seeking hers. But genuine friendship must be guided by ideas more constructive than an indolent readiness to gratify popular slogans. Throughout the Anglo-Saxon world public opinion is deeply anxious to help China along the path to responsible government, but needs to be sure that changes proposed do not lead in the opposite direction. As to how this may be, the darkness in which modern diplomacy has shrouded those problems makes it difficult to judge. Parliaments and the peoples they represent

* Vol. II, p. 149.

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have long been looking in vain for any clear guidance from those on the spot.

Mr. Justice Feetham's Report is the first clear rift in the smokescreen of secret diplomacy which envelops the Far East. If such a report had been published years ago, a series of catastrophes might have been avoided. As it was, the whole atmosphere was clouded by ignorance, and therefore poisoned by prejudice, till the British and Chinese councillors in Shanghai resolved to institute an impartial enquiry. They selected for the purpose a judge who had no previous knowledge of the facts upon which he was called to pronounce, and whose findings could not be affected by any personal interest of his own. His terms of remuneration, fixed at his own request, were that he should receive for his services in China the pay and allowances which he ceased to draw during his absence from South Africa. The detachment from all material influence, which a judge worthy of his calling desires, was thus safeguarded. The respect which he earned from the Chinese community in Shanghai was courageously expressed in a farewell speech by their stalwart leader, Mr. Yu Ya-ching.

The Times in a leader published on July 29 raised the question why British diplomacy, long quiescent, became so unusually active at Nanking at the very moment when Mr. Justice Feetham was about to report, and observed significantly, that, before the British Government is committed, public opinion is entitled to expect that his views will be fully considered.

It may also be added that public opinion in a world wider than England will expect no less. The issues at stake, as revealed in this document, are not confined to England and China, but involve the relations of a number of Powers in treaty with China, especially those of America, France and Japan. The tangle can only be unravelled in a conference between the principal governments concerned, such as took place at Washington in 1921. It is in such conferences that foreign statesmen can best find how really

Appendix

to help the sorely stricken people of China to emerge from chaos and achieve order by learning how to govern themselves.

APPENDIX

LETTER FROM DR. S. K. DATTA

HONG KONG, *January 3, 1930.*

My mind has been concerned quite recently with the influences at work in Asiatic countries which have had such a profound influence on our outlook as Asiatics—and particularly in the political realm. The time is not yet, but some day an Asiatic historian will arise who will point out that the most powerful influences have not been political dicta whether from the pages of Burke or Macaulay—or even the University of Columbia (U.S.A.)—but those institutions which the Anglo-Saxon trader considered necessary for his well-being and protection. My mind will dwell on these old settlements which girt the south-eastern and eastern coasts of the Asiatic continent. Bombay, Madras, Calcutta, Malacca, the infection turned the coast and Canton cum Hongkong were created, Shanghai, Tientsin, Kobe and Yokohama. Every one of the Chinese and Japanese settlements had a bund, an Indian word which means the water-bank. These settlements needed a few clean streets, a watchman or two, and thus were founded the first municipalities which did not emanate from above, but were the expression of the wishes of the small group of foreigners, who had certain common concerns such as sanitation, pure water, lighting and protection against thieves. In the second place a court made its appearance, to do justice between Englishman and Englishman, but its prerogatives soon included that of protecting the subject from the invasion of his liberties by the executive. Indeed, the Calcutta Supreme Court had to be restrained by British parliamentary legislation from interfering with the executive in the discharge of its legitimate functions.

Now, as we look back, is it not of significance that since 1884 in India nearly 800 municipalities have come into being, and over 1,200 district and taluq boards and union boards? In other words, India has to-day over 2,000 of these self-governing bodies—education, sanitation, roads, traffic. The expenditure which they control amounts to-day in Chinese currency to 500,000,000 Mexican dollars—a sum that Mr. Soong, the Nanking Finance Minister, hopes some day to collect as the national revenues of the Chinese Republic. Is it any wonder that the Congress boycott of legislatures does not include municipalities? My only regret is that "security" has not

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been transferred to these bodies, for I believe that they would have been better able to control Hindus and Moslems in their mutual jealousies and frictions—better than the central government has been able to do. It would also have helped these local bodies to shoulder greater responsibilities. However, let this pass. I think we may say that two great lessons have been learnt, or are in the process of being learnt.

The vote as a method of control—in other words the parliamentary system. Do you remember the Akali controversy in the Punjab which darkened the years 1923-24-26? The Sikhs in the Punjab desired to get control of their sacred shrines, whose endowments had long since passed into the hands of hereditary trustees—the abbots and their descendants. The Government refused to intervene, saying that they had merely recorded these rights when the Punjab was annexed. The Akalis adopted “peaceful” invasion of these properties. Finally, the Government yielded and asked the Sikhs if some 200 new bodies of trustees could be created. The reply was clear: the Sikhs asked that a board of trustees should be created consisting of 150 Sikhs who should be elected by adult suffrage of all Sikhs, both men and women. This proposal was incorporated in the Gurdwaras Act and is to-day law. Every three years elections are held in the Punjab; ballot boxes, electoral rolls, election officers form the apparatus for the creation of a company of spiritual trustees—if you like. The other lesson learnt is that of the necessity for accounts and audits of public monies. Study Indian legislation and notice the frequent reference to Bills introduced by Hindu and Moslem legislators to provide for the accounts and audit of religious endowment funds. I mention these cases particularly because they concern a domain where the British Government has been afraid to initiate anything; if there has been a change it is due to the efforts of non-official members of the legislatures, who have behind them an enlightened public opinion.

In India it is not merely the municipalities and local bodies which have been centres of responsibility and government, but the same principles are being slowly—very slowly it may be—carried into the agricultural co-operative movement. India has to-day 75,000 of these bodies—90,000 if you include the Indian States—with a membership of over three and a half million. Here heads of families have the responsibility of electing their officers, arranging loans, assessing the credit of their fellow members, conferring with the auditor regarding their accounts.

In the municipalities, district boards and co-operative societies there is real responsibility, not the shadow of it. That is within the limits of their responsibilities, hence you never hear of “throwing out the budget” in these institutions.

Appendix

The Indian political situation, as I see it, is the result of a people's "democratic" movement from below, which is engaging itself with the Government at the top, which, in theory at least, is autocratic. It is just the battle between two principles; they have come into conflict. Dyarchy was one method by which the antinomy was to be adjusted and, as you say, temporarily a passing stage.

But I seem to have overlooked the other institution to which I referred—the law courts. Of all British institutions in India the High Courts have rarely been criticised. They have been used by the people and have been looked upon as the bulwarks of their personal liberties. Sometimes your countrymen twit us as to our litigious practices, but is it not a great tribute to the law courts that they are used to the great extent they are? Sun Yat-sen has said that individual liberty did not matter to us in India; it has become our most prized possession. One hundred and fifty years of British law have done this for us. But these early municipal institutions along the Asiatic coast gave to the East two other institutions. Often to these settlements came Englishmen, quite frequently of shady reputation; drink quite commonly was a weakness from which they suffered. They settled down and established a newspaper and no one, not even the "President in Council," was exempt from their criticism. Calcutta had some scurrilous journals. Some of the journalists found their way to prison, not for sedition, it is true, but because they would not pay their debts. These gentlemen were the founders of the "freedom of the press" in Asiatic countries. The other institution was the right of public meeting. I do not know whether you will recollect that even to this day the three cities of Calcutta, Madras and Bombay have officers called Sheriffs, nominated not by the executive but by the High Courts—now a purely honorary appointment, but in the old days, if the British traders desired to ventilate a grievance or congratulate a governor they had the right to call upon the Sheriff to summon a meeting at the Town Hall. This right still continues, the request of the citizens is still called a "requisition." From those municipal rights came the notorious meetings at which Macaulay was attacked when he wished to empower the mofussil (outside the presidency towns) courts to try European British subjects, at which Grant, Lieutenant Governor of Bengal, when he stood out as the protector of the indigo plantation workers against the indigo planters, or later, Ripon and Ilbert were the objects of the scurrilous abuse of the Calcutta box-walla when they proposed an amendment of the Criminal Procedure Code to permit Indian magistrates to try Europeans. However unfortunate these attacks were in their violence, yet the lesson was not thrown away; India, too, awoke to the power of the public meeting. Out of the Ilbert controversy came the Indian National Congress.

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These are but a few sketchy notes. Some day it may be possible to investigate with more care the statements I have made. I wish I had the time and leisure. In the meantime this letter goes to you. I am convinced that in throwing responsibility on larger and larger numbers of people "citizenship" can alone be learnt.

My calculation is that the franchise in India is as follows:—Legislatures, 8,000,000, municipalities, 8,000,000, total, 16,000,000. But I may be wrong—considerably out in my calculations. Municipalities and district boards have over thirty thousand elected members.

NOTE

According to an announcement in *The Times*, copies of the Feetham Report are obtainable through booksellers from Messrs. John Pook & Co., 68, Fenchurch Street, E.C.3, London agents of the Shanghai Municipal Council.

THE CRISIS AND ITS BACKGROUND

WITH the remorseless march of a Greek tragedy, the logic of events is working itself out. As the depression has proceeded on its devastating course, its scope has progressively widened. It has become world-embracing, and, more serious still, its origins are now revealed as springing not from the operation of any ordinary trade cycle, but from fundamental defects in the financial, economic and political structure of the post-war world. The point has been reached when it has become evident that no single country by its individual efforts can stem the flood which has burst its banks and is threatening to wash away the foundations of credit and confidence, upon which our modern civilisation is built. By international action alone, by the whole-hearted co-operation at least of the countries with the largest stakes and the heaviest responsibilities in preserving the stability of the society of nations, can the flood be tamed and brought back to safe and ordered channels. Moreover, it has become patent that economic and financial action will no longer suffice to cope with the situation, since the prevailing economic and financial troubles are in a large measure but the symptoms of deep-seated malaise in the field of politics. The crisis of July 1931 is the combined product of the political and economic maladjustments under which the world has been labouring since its old balance was destroyed in July 1914. No new equilibrium has yet been found. Since the war there has

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been a series of more or less violent oscillations. Two or three years ago their comparative mildness and the general advance towards recovery created the belief that at last the fresh balance was being struck, that the waters were being peacefully canalised in the new channels. The events of the last two years have finally dispelled that illusion. The climax to which they inexorably led has now demonstrated the need for restating the whole problem and for working out its solution systematically from the beginning.

I. ECONOMIC INTEGRATION SINCE THE WAR

FOR a proper understanding of the problem it is first of all necessary to realise its setting. The world of to-day is very different from the world of 1914. It has made immense strides in integration. By the rapid improvement of all sorts of communications its economic intercourse has been intensified and internationalised to an unprecedented degree. The economic consequences of radio-telephony alone are incalculable. The rapidity and security of air travel have made international business possible and profitable which would never have been contemplated in pre-war times. The perfection of type-writing and printing machinery and of the ordinary telephone have rendered the exchange and distribution of information enormously easier than in the old days. Even the spread of linguistic knowledge and of international broadcasting has done much to promote commercial intercourse between nations. As a general result, business is conducted at much higher pressure. Not only has the nervous tension of individuals been thereby sensibly increased, but also that of nations. By these mechanical inventions international nerve tissues have been multiplied and rendered highly sensitive. Good tidings or bad tidings fly with tremendous rapidity. The reaction to them all over the globe is not only almost instantaneous,

Economic Integration since the War

but also far better informed and more far-reaching in its effects, because the web of international relations has become so closely woven and so infinitely complicated. All these things are commonplace enough, but they can hardly be sufficiently emphasised, for their profound economic bearings are still very inadequately appreciated.

In the economic sphere, then, the world has become a highly complex single organism. Damage or weakness in one part quickly sends waves of doubt and depression vibrating through the whole system, which tend to slow down the general rhythm of its commercial circulation. A fresh outbreak of civil war in China, a revival of boycotting activity in India, a threatened bank failure in Austria, a sharp fall in wheat prices in Chicago set nervous currents tingling all through the world, stronger or weaker according to the actual gravity of the specific event, but all of them producing some measure of economic disturbance. Yet although this process of integration is clearly producing extensive modification in the structure of industry and finance, it has gone forward without plan or system. As yet only a few isolated attempts have been made to establish the checks and controls which are necessary to ensure the smooth working of any piece of complicated machinery. Hitherto the haphazard methods of pre-war times have been thought sufficient, but events are now beginning to shake the old faith in the blind operation of "economic laws" as furnishing the best guarantee for universal prosperity. As will be seen, conscious attempts to guide and control economic tendencies are already being undertaken in some cases and advocated in others.

But if there has been a powerful movement in the direction of integration in the economic sphere, it has not been paralleled in the realm of politics. At a time when the currents of trade and finance were beginning to flow more abundantly than at any previous time, they found themselves barred by all kinds of new political obstacles from carving out the new and broader channels which they

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needed. The effect of the Peace Treaty was in the direction not of integrating the economic life of Europe, but of further disintegrating it. At a time when international intercourse was inevitably becoming closer, economic nationalism was raising fresh barriers in its path. The new States of central and eastern Europe attempted to foster industries which could not flourish on a purely economic basis, inspired partly by motives of national defence, partly by the belief that industries, however artificial their foundation, were somehow a source of national strength and prestige. Hence they sought to buttress industrial enterprise by tariffs, subsidies and prohibitions, which ran counter to the natural tendency towards closer and more widespread international commerce. This contradictory phenomenon was by no means confined to Europe. Countries like Canada, South Africa and Australia with small populations deriving the greater part of their wealth from the export of raw materials and foodstuffs, proceeded likewise to develop home industries behind tariff walls of increasing elevation on the supposition that they could continue to sell their wheat, fruit, wool and hides on an even larger scale than before the war, while at the same time reserving their home markets to their own manufacturers. A yet more striking example of the same faith was furnished by the United States. In pre-war days she required an excess of exports over imports with which to redeem the capital and pay the interest on her debts to Europe. After the war the situation was practically reversed. The United States had become a creditor instead of a debtor nation; yet from 1922-1930 her excess of exports was about the same as in 1913, an average of \$700,000,000.* But instead of being balanced by outgoing payments, this surplus was augmented by large receipts in respect of public and private debts abroad. Nevertheless, the tariff was once again revised upwards

* *Our World Trade in 1930*, p. 3. (United States Department of Commerce, April 1931.)

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in 1930, and reached a height never previously attained. Without attempting at this stage to estimate the consequences of this general growth of nationalism in economics, it is sufficient to note it as a potent force working in opposition to the inevitable tendency towards closer integration which has developed since the war. It is hardly open to doubt that this conflict has been a powerful factor making for disequilibrium. The truth is that we have constructed a twentieth century economic world which we are still trying to reconcile with eighteenth century political ideas.

It remains now to review the different fields of economic activity and to attempt to apportion the responsibility between this and other factors for the breakdown which has occurred.

II. THE COLLAPSE OF PRICES

THE extent of the depression is so vast and its various manifestations, agricultural, industrial, commercial and financial, so closely interconnected that it is difficult to treat them in isolation. It would probably be agreed, however, by fairly general consent that its kernel is to be found in the rapid fall in the prices of raw materials and foodstuffs and that no remedy which does not to some extent restore the price-level can be regarded as satisfactory. The first step therefore is to consider the causes of the decline.

By 1925 the first stage of recovery from the effects of the war had been completed. Currency had been restored to a stable basis in nearly every country in Europe by the re-adoption of the gold standard. Reparations had at last been regularised by the Dawes Plan. The index of European production exceeded that of 1913 for the first time, while the other continents had already substantially

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surpassed their pre-war output. This general progress continued steadily and satisfactorily during the next four years, as may be seen from the following table of industrial production indices* :—

| Year | United Kingdom (1924=100) | Canada (1919-24=100) | United States (1923-5=100) | Germany (1928=100) | France (1913=100) |
|---------|------------------------------|-------------------------|-------------------------------|-----------------------|----------------------|
| 1924 .. | 100 | 116 | 95 | 69 | 108 |
| 1929 .. | 112 | 193 | 118 | 102 | 139 |

This great increase in productivity, achieved as it was with shorter hours of labour and for the most part with higher real wage-standards than in pre-war times, might reasonably be taken as indicating swift improvement in the world's material well-being and swift replacement of the losses caused by the war. Indeed, such remarkable progress had perhaps never been previously witnessed. In the three years 1925-28, the output of foodstuffs and raw materials increased by 8 per cent. and a similar rate of expansion was to be found in industry, while despite all lets and hindrances the volume of international trade grew by no less than 15 per cent.† On the surface the picture looked bright and the prospects for the future brilliant. It concealed, however, a great and growing discrepancy between production and consumption. Owing to the mechanisation of agriculture and improved methods of cultivation, the output of wheat, coffee, sugar and rubber outran the absorptive power of the market. In the case of wheat the combined average production of the United States, Canada, Australia and the Argentine for the years 1924-28 had increased by 50 per cent. as compared with the years 1909-13. In the interval, the world's population had increased by only 10 per cent., while in addition there

* Tables relating to British and Foreign Trade and Industry (Cmd. 3737), p. 375.

† *Economic Depression*. League of Nations, C. 284, M. 134, 1931, p. 2.

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was a marked tendency to adopt a lighter and more varied diet to the detriment of bread in countries like Great Britain, France, Germany and the United States, where the standard of living was rising and the reduction of hard physical labour by the use of machinery made life possible on fewer calories. What was true of wheat was true of cotton. The simplification of feminine attire and the growing popularity of artificial silk would have caused an actual shrinkage in the consumption of raw cotton during the years 1927-29, had not an increased demand from the Russian mills and those of some other minor producing countries helped to keep it at least stationary. But production was far from remaining stationary, with the result that stocks continually mounted and prices were bound finally to break. The story of coffee, sugar, rubber, copper, lead, coal and other materials was very similar. By the application of intense mechanical, chemical and other species of scientific ingenuity the world had succeeded in immensely developing its productive capacity, but in spite of a series of prosperous years had failed to develop its consuming power in a corresponding measure. Indeed, its very success in reducing labour costs by substituting mechanical for manual processes weakened the market by making superfluous the labour of millions of persons, who had formerly earned their living by agriculture, and by thus throwing them on the industrial market at a time when in industry too labour was being eliminated in every branch through the introduction of machinery. Of this simultaneous revolution in farming and manufacture, for which there is no precedent, the United States furnishes the most outstanding example. In the ten years 1919-29, the agricultural population shrank to the extent of nearly 4,000,000, while the manufacturing and mining populations had likewise contracted considerably in spite of an enormously enhanced output. Paradoxical as it may appear, it is hardly open to question that an appreciable proportion of the unemployment now so widely prevalent is the

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token and the price not of poverty, but of vastly increased wealth.

In the case of raw materials and foodstuffs, therefore, an unstable equilibrium existed by 1929. Prices were only maintained by piling up stocks, which could only be held as long as future prospects seemed good, but which were bound to precipitate a heavy fall in values, as soon as unfavourable signs became discernible. The production of all the staple commodities was so widely distributed over the world that it was beyond the power of any nation or national group to control their output and uphold their prices. The attempt to regulate the production of rubber by the Stevenson scheme failed, because it was not sufficiently comprehensive in its scope. The efforts of the Federal Farm Board in the United States, and of the wheat pools in Canada to sustain the price of wheat failed for a similar reason. Other schemes more international in character broke down on other grounds, and all these failures to secure controlled production and steady prices resulted in a further weakening of the value of the commodity with which they were concerned. Nevertheless, they were groping towards some international system of regulation, which alone could ensure the producer against the disastrous effects of over-production. The spectacle of those effects since the depression has set in, so far from suggesting that such endeavours are futile because they failed, has rather stimulated greater efforts to ensure success. The output and marketing of sugar is now regulated by an international agreement. The agricultural countries of Eastern Europe have established an organisation for selling their cereals in order to prevent mutually destructive competition; but the result of the Wheat Conference at Rome in March 1931 was to show that no attempt to deal with the wheat problem could hope for success, unless it was conceived on an universal basis. The result was the meeting of all the wheat exporting countries in London in May, including both the United States and the U.S.S.R.,

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and the creation of an organisation which may prove a first step towards regulating wheat exports throughout the world. The need for some similar attempt is being increasingly felt in the coal industry in Europe, where again potential output has been raised by technical improvements to a point far in excess of the possible demand in the face of the development of oil and water as sources of power and the great economies effected in the use of coal itself. All these attempts to control output are symptomatic of the needs of a new age, in which international exchange has become so world-wide and production so prolific that its adaptation to consumption is no longer a local problem, but a continental or a world problem. No doubt the technique of such regulation is difficult and will not be acquired without a long period of trial and error. No doubt there are dangers to the consumer in concerted control of output and prices by the producers, against which safeguards may have to be provided. No doubt, too, limitation of output may risk prolonging the existence of inefficient plant and of restricting the development of more up-to-date and economical units. But these dangers are probably much less serious to the community as a whole than the ruin which may overtake the farmer, the planter and the mine-operator, together with their employees, under modern conditions of unrestricted competition. The nature and extent of that ruin is evident enough from the present plight of the countries mainly dependent for their national well-being on the sale of food-stuffs and raw materials, as may be seen by a glance at the distress of the farming and mining populations in the United States, Canada, the Argentine, Australia or Brazil. To prevent the recurrence of such catastrophes some form of international control will probably prove indispensable. It is, after all, only the logical extension of the principles of rationalisation which are being progressively applied within national industries. In many cases it is as yet unnecessary, and in some may never become necessary ;

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but in the case of a number of the staple commodities intelligent and comprehensive agreement between groups of national producers may be found to afford the only security against the constant menace of ruinous over-production and permanent instability of prices.

III. THE EFFECT OF TRADE BARRIERS

BUT the fall of commodity prices was not only due to over-production. In spite of the accumulation of stocks the descent would not have been so precipitate, had disequilibrium not existed in other directions. Attention has already been drawn to the obstacles raised by trade barriers to the more intense intercourse between nations which technical progress had rendered possible and natural. Of this tendency some further examples may be given. In the first place the exaggerated protection afforded to the farmer in countries like Germany and France led to the maintenance of wheat lands which were utterly uneconomic judged in the light of their cost of production in comparison with world prices. In April 1931 the price of equivalent grades of wheat was \$7.5 per 100 kilos. in Paris and \$6.85 in Berlin, as compared with \$2.93 in Chicago and \$2.20 in Winnipeg. As a consequence, the price of bread was nearly three times as high in Berlin and considerably higher in Paris than in the free market of London, a serious difference which has its reflex in wage-costs in export industries. While no one would maintain that the French and German Governments would have been wise to dislocate their whole rural economy by exposing their farmers to the full effects of the slump in world prices, prohibitive tariffs in this as in other fields inevitably stand in the way of the full development of the world's resources. Moreover, the protective measures to which these and other countries were driven would not have been necessary, had not more extensive wheat cultivation often been deliberately en-

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couraged at a time when machinery and more scientific methods had enormously expanded the production of wheat overseas.

What happened in the case of wheat was repeated with manufactured products. The re-division of Europe in itself added thousands of miles of new customs barriers. The partition of economic areas like Upper Silesia, the reversion of Alsace-Lorraine and the attribution of the Saar to France, tended to duplicate productive capacity without duplicating possible consumption. Outside Europe, the British Dominions and India followed the European lead and proceeded to stiffen the protection of their new industries. In the exporting countries, like Germany and Great Britain, which saw their foreign outlets being closed, opinion began to veer towards relying more on the home market and reserving that for domestic industries, though as a rule it was generally tacitly assumed, as it was in the United States, that this process could somehow be carried out in such a way as not to interfere seriously with the ultimate recapture of the export trade. It is true that the World Economic Conference found in 1927 that "the recovery from the effects of the war has been unduly delayed and that the foreign commerce of all nations is in a greater or lesser degree seriously hampered by existing obstacles to trade." They pointed out that production in excess of demand had frequently resulted, with the consequence that capital equipment was not being economically utilised and rates of interest remained unduly high; that excessive protection defeated its own object by reducing national production and purchasing power; that the attempt to attain self-sufficiency usually involved a sacrifice of material prosperity. The Conference accordingly declared that "the time had come to put an end to the increase of tariffs and to move in the opposite direction."

These general truths are just as valid now as they were in 1927, yet in spite of a series of meetings convened by the League of Nations in order to translate them into practice,

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very little progress has been made. Tariffs have tended to rise rather than to subside. The vested interests fostered behind them have waxed stronger rather than weaker. Neither by means of tariff truces nor by means of international cartels has the situation been substantially improved; and as it has not improved, it has inevitably deteriorated. The failure to lighten the shackles on international trade has made everything more difficult. It has hindered the revival of the exporting countries, choked the outlets for the grain-producers, immensely complicated the problem of international payments, and thus aggravated the maldistribution of capital. The immediate benefits of trade barriers are frequently perceptible in reference to particular industries taken in isolation, but because their pernicious influence on the economy of nations, either separately or in the aggregate, is not so easily demonstrable, it is for that reason apt to be discredited or ignored. On a general view, however, it is not open to doubt that they have constituted a baleful disease checking the circulation of the economic system and in the end assisting the collapse of world prices.

IV. MONETARY FACTORS

IN addition to over-production and trade barriers, there were other causes at work, more obscure in their operation and more drastic in their effects. Owing to the redistribution of capital resulting from the war, to the failure of the creditor countries as a whole to utilise their resources in the general interest, and to the inability of the debtor countries to meet their obligations without heavy borrowing, the international equilibrium which is essential to the proper working of the gold standard has not been maintained. With the intensification of economic relationships, the preservation of balance necessary to ensure the even and healthy flow of gold and credit throughout the

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world had become more vital and at the same time more delicate than before the war. But the legacy of the war itself in the shape of international indebtedness, depreciated currencies and disturbed political conditions made the automatic adjustment of the balance, which in former times had generally proved reliable, no longer an adequate or trustworthy method. A state of financial instability was created, which rendered insecure the whole fabric of credit, upon which the economic life of nations reposes.

It is unnecessary to summarise here the brilliant analysis of this monetary insecurity contained in the Macmillan Report, which is dealt with elsewhere in this number.* It will be sufficient to recall some of its main findings which point to the international origins of the depression and which demonstrate the impossibility of any real recovery until the political troubles, which have now clearly emerged as root causes of the existing financial chaos, have been effectually removed.

The maintenance of financial balance depends on money regularly and constantly irrigating the channels of production and trade everywhere. During the nineteenth century Great Britain as the principal creditor country had thoroughly assimilated the lesson that her own prosperity was bound up with that of the rest of the world, and that, accordingly, her interest lay not in hoarding her surplus receipts in the shape of gold, but in relending them to other countries in need of capital. One effect of the war was to modify profoundly the world distribution of gold. Of the total stock Europe's share was only £741 million, or 35 per cent., in 1925 as against £1,138 million, or 63 per cent., in 1913. North America's share, on the other hand, had risen from £429 million, or 24 per cent., to £950 million, or 45 per cent. The course of subsequent events did little to modify this redistribution until 1930, when gold flowed in exceptionally large quantities to Paris. No less than 78 per cent. of the world's gold was then

* See page 807.

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located in Great Britain, France and the United States, the two latter holding far greater quantities than the former.

As long as these accumulations were used as a basis for credit no serious evil resulted. During the years 1925-28, New York issued long-term loans to the extent of over £1,000 million, more than twice as much as London. American money thus flowing back to Central and South America and to central Europe did much to maintain and to develop the gradually returning prosperity. The boom on the stock market arrested this health-giving process. With the meteoric inflation of stocks, foreign issues lost their attraction. The high interest offered on call-money acted as a further deterrent to foreign investment. As the world hastened to take advantage of these unprecedented opportunities of profit, gold gravitated once more to the United States, but the counterbalancing foreign loans were no longer forthcoming. Simultaneously a like process was taking place in France for different reasons. These two concurrent and complementary drains on the credit system fatally deranged its equilibrium. The latent tendency towards price instability was quickly converted into a disastrous slump. Debtor countries, and in particular Germany, soon began to show signs of financial stringency, as the stream of foreign money began to dry up. The rhythm of German economic production began to slow down; unemployment began to assume alarming proportions. Worst of all, the sense of growing apprehension for the future, working on a public mind always highly nervous since the catastrophic days of the inflation, produced a feeling of despair which found expression in the elections of September, 1930. The rise of the Hitler party and the Communists, avowedly aiming at radical internal transformation and at repudiation of Germany's external obligations, at once aroused the dread of revolution within and of aggression without. The vicious circle was thus complete. The derangement

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of the international financial balance had produced a political situation which made an exit from the depression no longer possible by the aid of any purely economic or financial measures.

V. THE POLITICAL PROBLEM

TO anyone familiar with its working it had been obvious for some time past that the settlement of the Peace Treaty was becoming every year more precarious. In the course of a decade both the spirit in which it was dictated and the spirit in which it was accepted had become less and less real. Even in France, where perhaps the least modification had taken place, the recognition was growing that sooner or later some reconciliation with Germany must be worked out. Hence when in 1929 the British Government announced its intention of withdrawing its last remaining brigade from the Rhineland, France felt morally bound to follow suit. But although the period for the occupation was still far from completed, the time when its voluntary termination might have been welcomed in Germany as a friendly act, marking the beginning of an era of better understanding, had been allowed to slip. The interval since the signature of the Locarno Treaties had been too long for German patience, and for reviving German pride. Moreover, the death of Stresemann deprived the policy of rapprochement of its driving force at a critical moment. Without his leadership the country drifted for a while, during which the forces of Hitler, Hugenberg and Stahlhelm made rapid headway. By the time Dr. Brüning had gathered the reins firmly in his hands, the political atmosphere had undergone a significant change. The Social-Democratic party had lost much of its hold on the masses. Their moderate social policy was too extreme for the bourgeois elements and too timid for the millions of all classes who could find neither

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jobs nor bread. Their moderate foreign policy was distasteful to the prevalent reasoning of despair which saw the source of all the miseries of Germany in the crushing terms of the Peace Treaty.*

The demagoguery of Hitler was much better attuned to the popular mood. He openly preached the repudiation of reparations as an unjust and intolerable burden. He exhorted Germany to abandon the League, which had done nothing to alleviate Germany's sufferings, and to trust to her own strength, since the Allies had not carried out the intention to disarm, solemnly proclaimed in Part V of the Treaty. So far as unemployment and poverty were not due to foreign oppression, he traced them to the malign influence of international financiers and profiteers and pointed to the destruction of the Jews, the nationalisation of the banks and department stores, and similar drastic measures as the true remedies. At this point he came near to the Communist programme, which was not widely separated from his, except that its inspiration was derived not from nationalism but from Leninism. Though Hitlerites and Communists fought each other fiercely in their weekly brawls in the suburbs of Berlin, their temperamental approach to the problem of national salvation did not greatly differ. Both were fundamentalists, who saw no hope in the existing order. In a Germany which was feeling the warming influences of returning industrial activity as in 1927-28, when foreign money was flowing in freely, or in a Germany still stunned by defeat as during the inflation of 1923, the great masses would probably have paid little attention to such doctrines. But in 1930 they made a strong appeal to large sections of the people, particularly to the youth of the middle classes, who knew nothing of the war but its privations, and who had been disillusioned of the belief that it would be succeeded by a new spirit of international amity. On the contrary, they found that they were called upon to pay until the end of their lives for a war, for which

* See THE ROUND TABLE, No. 83, June 1931, p. 499.

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they at least had no responsibility, that their families had often lost all their savings in the collapse of the mark, and that for many of them the shrinkage of the national wealth had wiped out all hope of an honourable professional career. Highly trained engineers were glad to stoke the boilers of pleasure-steamers or to run a tractor on some remote farm. Emigration overseas was no longer possible, as the doors were practically closed in the United States, Canada and Australia, and even in South America openings were not numerous. All the safety valves were clamped down, with the result that the spirit of revolt against existing conditions spread rapidly, not only among the working class, but also in the ranks of the bourgeoisie.

So remarkable was the progress of this spirit that it created serious doubts as to the political stability of Germany, both at home and abroad. Just at the time when the effects of the depression were being most severely felt, the financial position of the Reich, which had never been too sound, was being sapped by a discreet flight from the mark. Germans with capital felt that it would lie more safely in foreign banks. British and American financiers with short-term holdings in Germany felt more and more disinclined to renew them. During the period of reconstruction after the inflation there had been a great deal of unwise borrowing and extravagant expenditure, particularly by some of the big municipalities and industrial enterprises. There had not been time to restore the country's finances to a sound footing, so that when the crisis of confidence was superimposed on the depression, they could not stand the strain. By June the position had become so serious that President Hoover felt that the time had come to make a heroic effort to save the situation. He proposed a general moratorium for a year for both war debts and reparations.

But such a proposal inevitably raised political questions of the first magnitude. The French had already been profoundly disturbed by the proposed Austro-German Customs

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Union and the construction of the "pocket-battleships." The economic importance of the one and the military importance of the other were probably greatly exaggerated, both in France and Germany, but their political importance was undoubtedly immense. To the French they were the symbol of a renascent Pan-Germanism, to the Germans the symbol of restored national independence and self-respect. Hence Frenchmen were inclined to make their acceptance of the Hoover offer conditional on Germany's renouncing these two projects. The two Chambers were angry and alarmed. They felt that if once a breach were made in the Young Plan, it would never be restored. What was to prevent Germany from using the money for re-armament? Why should France suffer from the consequences of German recklessness in finance and politics? For a fortnight haggling went on in Paris over guarantees and conditions. By the time France had finally agreed to the Hoover plan, which had been hailed by the rest of the world with joy and relief, the potency of its charm had been lost. During the interval of uncertainty money continued to drain away from the Reichsbank by millions a day. The American offer was no longer sufficient to plug the leak, as, if promptly accepted, it might very possibly have been.

The first unmistakable sign of financial collapse came on July 13, when the Darmstädter Bank closed its doors. A crisis of unexampled gravity loomed in sight. Bank failures were reported all over central Europe. The Board of the Bank for International Settlements met to consider the situation; but in the face of the political circumstances which now overshadowed the economic problem they felt themselves helpless and turned over the task of preventing a general collapse to the governments. Confidence in the future was gone. The investor could no longer be induced to risk his money, as long as the possibility of social upheavals and bitter international disputes clouded the skies. The only hope lay with the statesmen and politi-

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cians, who alone could conjure the smouldering fears and passions, which, fanned by the depression, now threatened to burst into flame. In these momentous circumstances the Conference of London met with the task of opening the political door which now apparently offered the only exit from the economic impasse.

VI. PROSPECTS OF RECOVERY

WITHIN a few days of its close, no one can say whether the Conference has succeeded or failed. It may be hoped and perhaps expected that the financial measures which it recommended will prove adequate to tide over the immediate danger, and to allow breathing space in which the work of devising lasting measures can be undertaken. But nobody supposes that the sickness of Germany, which is now spreading contagion to the rest of Europe and thence to the rest of the world, can be cured without the application of much more radical remedies. Temporary palliatives have been applied, but a major operation seems unavoidable. The question is how deep must the knife cut in order to excise the plague spot.

A reconsideration of the various sources of economic evil briefly summarised in this article will suggest at once that a permanent cure can only be effected by an extensive programme of international reconstruction, comprising co-operative action in the commercial, financial and political fields. An encouraging feature of the situation is the obvious soundness of the patient's constitution. The world has never been equipped to produce so much wealth so easily as at the present time. There is no question of impoverishment. If only the machinery of international credit and exchange can be so organised and controlled as to ensure its smooth and steady running, there is every reason to suppose that an era of unexampled prosperity might easily be launched. Even now there are signs that

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the seeds of a recovery are present, if uneconomic influences were not hindering their germination. What then are the main requisites for casting off the present depression, and for preventing other such calamities in the future ?

Unfortunately, the beginning must now be made with the political problems. These are not difficult to define in their main outlines, but their scope and ramifications are extensive. The first problem is the restoration of Germany, not only to financial soundness, but also to a sense of self-respect and international citizenship. For both these purposes some readjustment of international relations is necessary ; but how much is necessary and how much is politically possible ? A few months ago a further revision of war debts and reparations, towards which Mr. Hoover's offer was a first move, might have sufficed to meet the situation, at any rate for the moment. To-day it is no longer enough. The plebiscite in the Saar is nearly due. Its restoration to Germany would remove another sore spot. But there remain three other major bones of contention—the Customs Union, the eastern frontier and disarmament. If any of these questions were taken separately, they would probably prove completely insoluble. If they are made the subject of a general negotiation, some progress at any rate may be made towards changing the *status quo*, which has plainly become untenable. For this reason the establishment of friendly personal contact between the French and German leaders is perhaps the most important result of the London Conference. But both of them have a task of enormous difficulty. It may perhaps be suspected that the French people are much more disposed to seek reconciliation with Germany than the Parisian Press would seem to suggest. But they can hardly be expected to make all the concessions—to agree to a large measure of disarmament, to forgo a large part of reparations and to see the balance in central Europe drastically shifted without any countervailing security. In itself,

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the suggestion that Germany should in her present financial straits abandon battleship construction was not unreasonable, but, however much the German leaders may have been inclined to agree, especially in view of the insistence on disarmament in England and America, could they accept such a proposal without risking overthrow by Hitler and his wild men? Similarly, the Customs Union has become a symbol in domestic politics. In so far as it has an economic justification, it is as a first step towards removing the tariff walls which are a source of division and weakness to all Europe. In its economic studies the Committee on European Co-ordination appointed by the Assembly of the League a year ago has been painfully seeking some method of commencing their demolition. Perhaps the sentiment in favour of the attempt is gradually gaining a little headway; but, unless it can be merged in some wider scheme of economic rapprochement, it is difficult to see how the Customs Union problem can be satisfactorily solved. Finally, the Eastern frontier is the most thorny question of all. Generally speaking, there have been unwarranted provocations and grievances on both sides, but few people unaffected by the violent propaganda current in Germany would suppose that all the demands of the Nationalists were reasonable. A settlement should not be impossible, if there is a general disposition to seek agreement at the Conference. That will not be easy, however, in the present state of public feeling in Germany and elsewhere, and unless agreement is reached, the prospects of disarmament will be seriously compromised.

To British and American minds, disarmament has become one of the keys to renewed prosperity. It is realised in the City, in Wall Street, by big business and even dimly by the farmer of the middle-west, that as long as rumours of war are prevalent, there is little hope of quiet and profitable business; and that rumours of war will persist as long as Europe is an armed camp. But the will to

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disarm depends on an absence of fear, and fear is unhappily far more prevalent on the Continent than in Great Britain and the United States. For a beginning of disarmament, a relaxation of political tension is therefore necessary. There are some factors in the situation, which are not without encouragement. First, there is probably no country in Europe where there is a real desire to fight. In spite of all the nationalist bombast which may be found in certain countries, there is no such general readiness to accept the hazards of war as there was in 1914. In the last resort it may be seriously doubted if the masses anywhere would march beyond their own frontiers. Secondly, the very gravity of the financial crisis has brought pressures to bear, which are bound to exercise a very powerful influence on events. The re-entry of the United States into world politics is a portent of great significance. It only occurred because American interests made it imperative, and after all, no nation acts from purely altruistic motives. Moreover, the harmony of interest between the British Empire and the United States makes combined action possible, which can perhaps do more than anything else to restore political stability. Neither can afford to see Germany go to the wall and Europe relapse into chaos. Both, through their comparative aloofness from European political affairs, are in a position to act effectively as mediators. Thirdly, the faint signs of a desire for understanding between France and Germany may develop into a thorough attempt to sink differences and establish collaboration. There are obviously some considerations pointing to the wisdom of such a course to which neither party is likely to be altogether blind. The question is whether there is sufficiently resolute leadership on both sides to swing public opinion into the path of conciliation.

The political outlook, therefore, though sombre, is by no means hopeless. If the political heavens began to clear, a revival of confidence would set in which would

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have an immediate reaction on the economic position. Technical symptoms of recovery are already beginning to be discernible in the United States and elsewhere. But, just as the depression did not originate in purely political causes, so it cannot be finally cured by political measures alone. The maintenance of financial balance has now become an international problem of first importance. It is no longer sufficient to rely on the automatic interplay of economic forces. Skilled and conscious management of the currency system has now become a necessity, and efficient machinery for the purpose must be created. As the Macmillan Report very clearly shows, no Central Bank can hope to shape a successful policy in isolation. There must be commonly accepted principles of management, some of which have already been outlined by the Gold Delegation of the League, applied through closely co-ordinated action by the Central Banks themselves. There are many obstacles to the creation of such machinery ; but none of them is insuperable. In the Bank for International Settlements, the germ of a system of international control already exists.

Finally, in the fields of commerce and production, international rationalisation has likewise become indispensable. In the former, the world has got to free the avenues of trade from artificial obstacles, if it is to utilise its productive powers to the maximum. Here again the efforts towards a more unified Europe, which are being laboriously pursued under the auspices of the League, are first beginnings. Though the goal is still far distant, it is at least being consciously sought. The more successful the endeavours to maintain the fertilising flow of credit and to clear the channels of commercial intercourse, the less necessary will restrictive measures for the regulation of production and prices become ; but it seems probable that international agreements between producers will be found to be unavoidable in the case of many commodities for a considerable time to come. In fact, the need for

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intelligent and organised international co-operation has become imperative in the spheres of politics, finance, commerce and production alike. Without it the whole elaborate social and economic fabric which has built itself up may crumble and collapse. As Sir Basil Blackett said the other day, "if the machine which mankind has created is to remain his servant and not wreck itself and its creator," we must henceforth rely on planned direction instead of on *laissez-faire* and the unordered competition of individual enterprise. "Political and economic planning and co-operation form the task of the twentieth century." It cannot be accomplished, however, merely by nice calculations of immediate self-interest, either individual or national. It will need something more than enlightened egoism to ensure that at this "turning point of history," as the Prime Minister without exaggeration described it, the road to collective recovery is chosen in preference to the road to disintegration and disaster. The new order which the world now calls for cannot be planned and built without faith and vision. Is it possible to kindle to-day a spirit of constructive enthusiasm such as more than once has swept humanity forward on its way? Is the present generation too steeped in the cynicism of disillusionment to be incapable of the moral effort needed for its own salvation? Those are after all perhaps the ultimate questions.

AMERICAN POLITICS AND THE HOOVER PLAN

MONTESQUIEU is credited with having exclaimed: "Happy is the nation which has no history." The maxim may now be amplified. Thrice and four times happy is the nation which has no economics. Next in happiness to the nation without economics is the nation with no economics but its own. Whatever nations may be qualified to enter into either of these latter categories of felicity, the United States of America is not one of them. We are afflicted with our own economics and everybody else's. The humblest residents of Main Street are moved by the coffee situation in São Paulo; they study affidavits about the production of lumber on the Murmansk coast, and scan the records bearing on the production of copper in the High Katanga. Not a municipal budget in the Rhineland but may shake the plains of Kansas. One should perhaps apologize for the triteness of such observations. Yet it is not so long ago that they were considered rather daring, almost fanciful. As a creditor nation, we are cutting our eye teeth. And teething is painful.

The winter of our discontent—the second and far the worse winter of our discontent—sloped downward into the deepened despair of May. On June 2 the average of industrial stock prices was less than 80 per cent. of the low levels achieved on December 16; the average of railway stocks was less than 75 per cent. The utilities which proved the most resistant of the major groups were 10 per cent. below the December "lows." And the December lows had been hailed for months thereafter as the almost

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irreducible minimum of American economics. On June 3, aided by a relaxation of margin requirements by the leading New York bankers, the tide turned momentarily upward. In the lingo of the financial journals, the June lows "have not been violated."

I. THE HOOVER PLAN : THE FIRST REACTION

CURRENT events have an extraordinary capacity to turn upon the most cautious of writers. On May 5, 1931, the author of *President Hoover at Mid-Term* in THE ROUND TABLE for June employed with perfect accuracy the following language :—

In general, the attitude of the Hoover Administration toward European questions has been the traditional one of American aloofness. In his pronouncement on Armistice Day, 1929, in favor of the immunity of food ships from seizure in time of war, Mr. Hoover showed a flash of that talent for world leadership which many of his countrymen had been looking for, but on the whole he has shown little inclination to make the United States exercise its potential influence in world affairs.

It would be difficult to find an example of an accurate generalization more swiftly or dramatically superseded. On June 20, less than seven short weeks after the writing of these sentences, Mr. Hoover stepped decisively into the international arena and showed a most striking inclination to make the United States exercise a marked influence in world affairs. In his statement he observed :—

The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including obligations of governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign governments to the American Government payable during the fiscal year beginning July 1 next, conditional on a like postponement for one year of all payments on inter-governmental debts owing the important creditor Powers.

The Hoover Plan : The First Reaction

These two pithy sentences were followed by a list of Senators and Representatives who had approved of the proposal. General Dawes and Mr. Owen Young, authors of the respective "plans" for Germany, were also cited as approving. It was apparent that the President's proposal was at least not entirely a personal foible. The purpose of his action, he declared, was :—

to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.

He spoke of the fall in commodity prices, the impaired confidence in economic and political stability abroad, the abnormal movement of gold into the United States. Then with caution and faithful consistency he warned his readers that :—

reparations is necessarily wholly a European problem with which we have no relation.

I do not approve (he said) in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action.

This course of action is entirely consistent with the policy which we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which the payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest.

And while the President conceived of his action as having no bearing on the conference for limitation of land armaments to be held next February, he said :—

inasmuch as the burden of competitive armaments has contributed to bring about this depression, we trust that by this evidence of our desire to assist we shall have contributed to the good will which is so necessary to the solution of this major question.

The immediate reaction to the President's proposal will be vivid in the mind of everyone. There was scarcely a stock or commodity market in the whole world that did not

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leap upward like a balloon untethered. Within a week after the message stocks had recovered to the levels of mid-December. There are few precedents in America for so swift a recovery in Wall Street. While it is too early by perhaps a century to offer any very exact estimate of the ultimate significance of Mr. Hoover's proposal, it is of immense interest to political philosophers and those who moisten their fingers to feel the winds of public opinion.

It is reported that Mr. Hoover was extremely doubtful of the reception that his statement would receive from press and people. The enthusiastic response in this country seems in many ways highly anomalous. It is safe to say that at least until very lately the great bulk of American opinion has opposed anything like cancellation of the debts. Mr. Hoover takes pains in his statement to placate this sentiment by denying such a purpose. Mr. Castle, the acting Secretary of State, denied it. Mr. Borah, chairman of the Senate Committee on Foreign Affairs, expressed his fears of cancellation. Yet it is recognized even now that at least a partial cancellation of the debts is likely to ensue. Cancellation would cost about eleven billion dollars in principal, on which annual interest at three per cent. comes to about a third of a billion. This is a substantial burden to cast upon the American taxpayer, who at the best, and quite apart from any shifting of the European debt burden, is faced by the prospect of increased taxes for the next few years. Then why should he hail with enthusiasm the slightest step or the least gesture toward cancellation? A year ago he certainly would not have done so. Even a few weeks ago the stock market declined upon the rumour that Germany would seek a moratorium under the provisions of the Young plan. Superficially at least there seems to have been a reversal of American sentiment for which we must go back some fifteen years to find a precedent, in a nation which elected a President who had kept it out of war and then in less than six months followed him unitedly

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and enthusiastically into war—a war for “such a concert of free people as would make the world itself at last free.”

The reversal of public sentiment, if there has been a genuine reversal, springs from desperation. Into a hopeless economic situation there comes a ray of hope, and we leap to acclaim it. Mr. Keynes, who wrote that very brilliant and entertaining book, *The Economic Consequences of the Peace*, which we all read in 1919 and 1920, may have been right as well as readable. We will brush the dust off it and take another look. It is certainly more impressive now than it used to be. The 1931 edition might appropriately bear a simple preface consisting of one sentence, “Now will you believe me?” At any rate, quantities of people are persuaded that the financial burdens on Germany are too heavy to be borne. It may not matter so much whether Germany cannot pay or whether she can and won't. In neither case is the item, “accounts receivable,” in our balance sheet a quick asset or even a good asset. We must all now recognize the weaknesses inherent in a long-term indemnity credit. It seems rather a pity that the indemnity classes at Paris and Versailles in 1919 did not have Bismarck as their teacher.

II. SECOND THOUGHTS

ANOTHER thing seems plain, even on a month's perspective. The momentary reaction to the President's statement was unwarrantably enthusiastic. People assumed that central Europe was to be rehabilitated by a stroke of the presidential pen. A few days later it became apparent that conditions in Germany could not be relieved by the mere postponement of reparation payments for the next twelve months. Her difficulties proved more and more critical, and the efficacy of the arrangements reached at the seven-Power London Conference a few days ago leave the issue still in doubt. The results of this conference have not been acclaimed with any

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enthusiasm in the United States. Indeed Wall Street received them gloomily.

A few days after Mr. Hoover's moratorium statement some political critics observed that no stock had risen more rapidly than Mr. Hoover's own. It is certainly safe to say that nothing in the President's political career has ever been more immediately popular than this announcement. But as to long-term popularity the question is a more difficult one. It seems unlikely that any contact of Mr. Hoover's with international affairs can impart the momentum necessary to ensure his re-election unless it is accompanied by a sharp improvement in business in this country. In previous elections, "issues" have had more or less painfully to be fabricated or else there have been practically no issues at all, as in the Coolidge-Davis campaign of 1924. In 1932 the single issue is pretty certain to be prosperity. Men are likely to vote not according to abstract opinions, but according to the state of their dinner pails, their pay envelopes or their dividend cheques. It is unlikely that other topics will very seriously cut athwart the absorbing topic of American prosperity or the want of it. To be sure, this is not very just. Politicians and political parties cannot fairly be blamed for the operation of economic or indeed of any other natural laws. Supply and demand, like gravitation, play nasty tricks, no matter who lives in a white house or sits under a dome. However, there have been Republicans in the past willing to identify their party with prosperity, and it is scarcely to be expected that the Democrats will abstain from all attempts to make political capital out of economic distress. The perennial question of prohibition, which at one time threatened to confound party organizations, is likely to be thrown into the background for another four years. Questions of the tariff, of farm relief, of international relations will doubtless be discussed, but they will be discussed in their relation to stock prices, commodity prices and the indices of unemployment.

The Presidential Election

III. THE PRESIDENTIAL ELECTION : PROGRAMMES AND PERSONALITIES

AS to presidential candidates it seems certain that Mr. Hoover will be the nominee of his party, though there are doubtless many who would prefer another leader. Any party in power is necessarily faced with a logical dilemma if it fails to renominate a President serving his first term. It cannot "point with pride" to its administration unless it is pointing with pride to its chief administrator. When we come to the Democratic party, however, the candidates are unlimited and prediction is as futile as it is diverting. Al Smith's renomination seems now unlikely. His successor in the governorship of New York, Mr. Franklin D. Roosevelt, is going through the process known as "grooming." He has many qualities which make him conspicuously eligible as a candidate. His long years of political service and the prestige of his high office are noteworthy. Of all the Democratic candidates he is perhaps the most often "mentioned." This, however, by no means ensures his nomination. Other men have intellectual claims to the leadership of the Democratic party as good as Mr. Roosevelt's or better. There is, for example, Mr. Owen D. Young, whose eminent contribution in connection with the problem of German reparations is recognized. He is a lawyer and not a politician. He never held a public office, or if he did it has been forgotten. But his capacity to occupy the highest public office is conceded. Nor would his lack of political experience handicap him as severely as it would many men. For years he has been at the head of one of America's greatest corporations and in this position he has been known above everything else as a negotiator and peacemaker. In public affairs he stands pre-eminently for an abandonment of isolation in our politics and of exclusion in our tariff. On business and

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industrial questions he is a conservative and would be recognized by thoughtful and independent voters as "safe."

Then there is Mr. Newton D. Baker of Cleveland, who was Secretary of War in President Wilson's Cabinet and who is principally known for his espousal of the League of Nations cause. He would also be an opponent of isolation in American politics. He favors repeal of the Eighteenth Amendment and would remit the whole question of policy and enforcement to the States. He is one of the best lawyers in the country but has played no leading part in politics since 1920.

Governor Ritchie of Maryland is principally known to his countrymen as an opponent of the Eighteenth Amendment and an advocate of State rights in so far as the question of prohibition is concerned. He has inveighed against our present tariff on the ground that it is "bringing retaliations from other nations whose trade we ought to have and whose goodwill should be an American asset." He is not a national figure but is the sort of individual often fixed upon in those compromise arrangements which so frequently characterize political choices.

It is safe to say that any Democratic candidate will attempt to make capital out of the Republican policy of protection, and in doing so he will have the support of plenty of economists both in this country and abroad. Undoubtedly if a Democrat were to succeed Mr. Hoover there would be an attempt to change the existing tariff legislation in this country, but it is by no means certain that any sweeping change would result. In the first place, the Democratic majority in Congress might not be large enough to be very effective even if a Democratic President were to be elected by a substantial margin. In the second place, it is unlikely that all Democrats would readily agree upon the terms of a tariff Bill. Tariff making in 1933 or later would probably be very much like tariff making in the past, a scramble of federal legislators on

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behalf of their constituents' industries. Although there are plenty of arguments against the theory of protection, it must be conceded that this country can scarcely renounce the policy of a century without internal economic readjustments which would be very disturbing and doubtless very harsh in their effect on many American industries. Tariffs, like armaments, are hard to get rid of, and when economists like Sir George Paish tell us that the world must get immediately on to a free trade basis they are giving us something very like counsels of perfection. Furthermore, if America should be prepared to remit a substantial part of her European indebtedness, then one of the most intelligible popular arguments for free trade would largely vanish.

IV. THE RUSSIAN BOGEY

WHEN one is discussing tariffs the subject of Russia comes naturally to the fore. The Russian economic experiment, which is doubtless as noble in its motive as any moral experiment in this country, has been going on for nearly fourteen years. There has never been a time when American students of political and social affairs were not intensely interested in everything that happens in the former empire of the Czar; but now that the Russian bear is walking more like a man than he has done for a score of years, Americans are becoming increasingly Soviet-conscious. Some of the reasons for this attitude have already been suggested in these pages.* Undoubtedly the popular idea of the Soviet economy is crude and inaccurate in America. The American imagines an unprecedented volume of exports being dumped on these shores by Russia, partly in order to enable her to purchase American-manufactured goods for use at home, but more particularly to disrupt American markets and

* THE ROUND TABLE, No. 83, June 1931, pp. 521 and 522.

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foment social discontent and political disorder. The sale of Russian commodities abroad is, he reasons, just as truly a liquidation in distress as the sale of stocks in Wall Street by weak marginal holders. The actual amount of dumping by Russia in this country has not been very great up to date. Though there was a good deal of talk about Russian "bear" sales in the Chicago wheat market, they were probably not sufficient to influence prices materially. However, with wagon wheat selling in Kansas at 25 cents a bushel, and the two hundred million bushels of the 1930 crop in the hands of the Federal Farm Board hanging over the market, it is no wonder that the nerves of the American wheat grower are a little jumpy. In this, the year of the largest carry-over in American history, he is more ready to listen to his fears than he is to hunt up reliable statistics—and reliable statistics about Soviet Russia are hard for the average man to come by.

With Russian pulpwood the story is somewhat similar. While it is cheaper than American pulpwood it has not been cheap enough to keep out Canadian and Scandinavian imports. Russian coal has come in but not in great quantities. It is contended with regard to many Russian goods that their production is the result of convict or forced labor and that they may be excluded under an Act of Congress which forbids the importation of the product of such labor. But how to prove the facts about Russian production is another story. Undoubtedly American sentiment will countenance any reasonable effort to protect this country from Soviet dumping. On the other hand, there is nothing which can be done in this country to prevent Russia from regaining her pre-war wheat markets abroad. Indeed the whole wheat situation presents one of the darkest pictures on our economic screen.

Those who fear the threat to our markets from Russian economic methods are also afraid of the effects of Communism upon our institutions, and such fears are apt to become hysterical. Unless the basis of capitalism is

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undermined by years of depression we are scarcely likely to scrap the economic system which underlies western civilization. Its admitted defects afford no logical argument for completely discrediting it. On the other hand, many minds have been captivated by the Russian five years plan. Mr. Stuart Chase, one of the most articulate and persuasive of American economists, has said that "the choice of a machine age lies between chaos and planning, with the logic of the latter utterly unescapable." Mr. Mathew Woll, of the American Federation of Labor, has challenged the President to produce for this country a ten-year plan which will be our means of salvation. To this President Hoover replied at Indianapolis that America's "plan" was to take care of a twenty million increase in her population in the next two decades,

to build for them 4,000,000 new and better homes, thousands of new and still more beautiful city buildings, thousands of factories; to increase the capacity of our railways; to add thousands of miles of highways and waterways; to install 25,000,000 electrical horsepower; to grow 20 per cent. more farm products. We plan (he continued) to provide new parks, schools, colleges and churches for this 20,000,000 people. We plan more leisure for men and women and better opportunities for its enjoyment. We not only plan to provide for all the new generation, but we shall, by scientific research and invention, lift the standard of living and security of life to the whole people. We plan to secure a greater diffusion of wealth, a decrease in poverty, and a great reduction in crime. And this plan will be carried out if we just keep on giving the American people a chance. Its impulsive force is in the character and spirit of our people. They have already done a better job for 120,000,000 people than any other nation in all history.

In short the President meets the cry for economic revolution by a few words of glowing praise for the traditional American individualism. It is obvious that the President's prophecy is based upon an assumption regarding our population which may prove to be unwarranted.

Mr. Chase objects that Mr. Hoover's is a plan without planning. He points out that in years of so-called prosperity we may release for investment as much as ten billion

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dollars which goes anywhere on a hit or miss basis. He pleads for "master planning" which will bring purchasing power into alignment with the growth of the technical arts and give citizens enough income to enable them to buy the goods which other citizens make. This is all very well, but who under the American, or for that matter under the British, political system is to do the planning? Is the master planner or the master planning board to be appointed by the President or elected by manhood suffrage, or are they to be chosen by representatives of industry upon some basis not yet determined? There seem to be two practical difficulties. The first is that the American citizen may refuse to agree to the plan. He may plant more acres (or desiatins) of rye than he is allowed to by the plan, or he may reap too many bushels (or poods) to the acre. He may be guilty of contempt in the event of an order for investment. In that case what is the planner or the planning board going to do about it? Will the excess be confiscated? It will be hard to treat the American farmer like a kulak. Yet an economic system of governmental or quasi-governmental planning would require well-nigh dictatorial political powers which are highly alien to American and British traditions. In the second place, even if we could imagine a national system of planning, scientific in its method, adequate in its scope, and administered with sufficient legal sanction, of what good would it be if there were no correlative system of planning in other countries? If we "planned" our wheat production down to a point at which wheat would fetch what was deemed a satisfactory price in the American market, who would hold in check wheat production in other countries? In the absence of international planning on a world-wide scale it would seem that any American plan would have to be operated behind a tariff wall which would exclude outsiders from our market to an even greater degree than has ever been done in the past, and this is scarcely within the realm of practical economics. It is certainly contrary to the whole school of

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anti-protectionist teaching. Until these problems of planning can be solved we shall probably go on under a system in which the suppliers are recurrently tortured by inadequate demands and the demanders recurrently tortured by inadequate supplies. But it is undoubtedly true that the terrific economic hardships of the time are making international co-operation in a thousand ways more and more indispensable. And inevitably so, for only last month two Americans went to Blagovestschensk and back in eight days. No wonder we are worried about Blagovestschensk. If this depression can make us think more internationally, its effects will not be wholly destructive.

V. ILLUSIONS AND THE FUTURE

TO the writer, one of the most tedious things about the depression is the grip which it has given to our moralists. We are now being told that the present evils are a judgment upon us for our sins of greed and avarice and the lust in 1928 and 1929 for getting rich quick. As a matter of fact, while there were doubtless greed, avarice and lust for getting rich quick in those years of prosperity or pseudo-prosperity, it is very doubtful if there is any less to-day. We are more than ever in need of the Gilbertian doctrine that hearts just as pure and fair may beat in a house with seven bathrooms, two radios and a three-car garage as in a hut in the wilderness. What thoughtful people hoped that we had attained in 1928 and 1929 was some degree of stabilized prosperity. Many people, even thoughtful ones, believed we had attained it. Why is there anything illegitimate or ignoble in such an aspiration? People who talked in those years of a "new era" are being ridiculed by students of the economic cycle. Yet the idea of a new era should scarcely seem ridiculous even to-day. Though the old economic laws are still in force, the increasing use and efficiency of machinery, the facility of mass

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production, the ease and quickness of transportation, the heightened interdependence of all peoples and their heightened demands as consumers, have actually produced changes so drastic as to warrant the term "new era." We shall make our best progress not by ridiculing this conception but by recognizing it and by seeking a technique both in politics and economics adequate to its occasions. Here is a problem great enough to exercise the best mentalities of our world, to exercise indeed such a concert of the best mentalities as will make the world itself at last free.

"In the next ten years," says Mr. Walter Lippmann, "we shall have to liquidate the delusions of the last ten years." Just so. This is the destiny of all the decades. Already the curtain has risen upon the drama of the 'thirties and Disillusionment, that realistic and convincing performer, is playing the leading part. But who are those attractive little girls in the wings, so young, so agile, so beguiling? In the half darkness we strain our eyes to read the programme. Is it possible? Yes they are the Delusion sisters, who even now are destined for a *succès fou*. And jaded as we are we shall acclaim them too for their little day. For history is the story of our new amours.

United States of America.

July 31, 1931.

THE MACMILLAN REPORT

DURING the Deluge, an inventor designed a new and more serviceable kind of umbrella. That is not a true story; but it is true that on the day on which the reichsmark depreciated for a time to less than two-thirds of its par value, dragging down the pound sterling and threatening the whole structure of the gold standard, the Macmillan Committee on Finance and Industry presented their report* containing proposals for monetary reform, and basing their recommendations on the assumption "that the next phase of monetary policy must consist of a whole-hearted attempt to make the existing international standard work more satisfactorily." This conjunction of circumstances led some commentators to write off the report as an umbrella in a flood, a back number before it was printed. But it was only by an agitated press that the Committee were invited to provide a solution for immediate difficulties. Their terms of reference directed them to report on the permanent relations between finance and industry and not on a critical international situation which developed long after they were appointed.

Their report is, in fact, a remarkable treatise on monetary theory and practice and contains extremely valuable lessons, not merely for Great Britain but for governments and monetary authorities all over the world. Many of the reforms proposed for London might profitably be applied in any other financial centre. The Committee,

* Cmd. 3897.

The Macmillan Report

which was appointed in November 1929, under the chairmanship of Lord Macmillan,

to inquire into banking, finance and credit, paying regard to the factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour.

comprised some strange bedfellows—an ex-communist and an ex-Treasury official, a trade unionist and business men, theoretical economists and practical bankers. Yet only one, the Treasury expert, Lord Bradbury, dissents from the main report, though five others make reservations and though certain immediate non-monetary measures, which are discussed in addenda, rouse acute differences of opinion.

I. THE INTERNATIONAL GOLD STANDARD

A BOOK might be written upon the new interpretation that the Committee give to monetary theory. But their concrete proposals are sufficiently numerous and complicated in themselves without any rattling of the dry bones of academic controversy. First come those which concern the monetary system of the world as a whole; and here the preliminary question to be answered is clearly, what should be the purpose, now and in the future, of that system. The Committee have no doubt—and there will be very few to quarrel with them—that at all normal times stability of prices must be the first consideration. But with regard to the immediate situation they utter a stern warning. They write:

We are emphatically of the opinion that, even if a further fall of wholesale prices be avoided, their stabilisation at approximately the present level would be a serious disaster for all countries of the world alike; and that the avoidance of such an event should be a prime object of international statesmanship.

The International Gold Standard

The Committee address themselves to the problem of how to bring about such a rise of prices. In a cogent analysis of the causes of the world slump, which forms part of the descriptive section of the Report, much stress is laid on the part played by international capital movements. From 1925-28 they were on an enormous scale, especially from the United States to Europe and to Latin America. Then, with the Wall Street boom, they were suddenly diminished, and when the crash once more released funds for overseas investment, confidence was gone and the financial position of debtor countries was already desperate. Their system of prices, wages and balance of trade had all been built on the foundation of the import of capital and the wealth that it entailed. When the flow suddenly ceased, they were forced to make desperate efforts to adjust their trade balance, by restricting imports and by stimulating exports with the aid of price cuts; sometimes these efforts (as with wheat) were worse than nugatory because prices were driven down in far greater measure than demand would expand. The economy of the creditor nations was equally seriously disturbed by the sudden curtailment of the debtors' purchasing power. All this explains why a revival of international lending plays as large a part as it does in the Committee's proposals for an escape from the slump. The central banks and treasuries of the creditor countries are urged to do all that lies in their power both to remove hindrances to the flotation of foreign loans, and to maintain an abundance of cheap credit in their domestic money markets, available for lending as soon as sound borrowers apply for loans. The Committee admit that "the most difficult task is likely to be to find borrowers of sufficient standing to give confidence to investors," and while some of them "think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle," they would all regard with favour any action which might lead to some form of internationally guaranteed credit or to the creation of an international

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investment corporation. The new loans need not be made to the weakest debtor countries, nor indeed abroad at all, provided that they are allowed to have their full effect upon international purchasing power. "It is the simultaneous reluctance of creditor countries *either* to lend *or* to buy which is the cause of the crisis."

All this part of the Report is rather vague and general, as indeed it must be, coming from a national committee with no mandate to advise monetary authorities elsewhere. Assuming that the rise in prices can be brought about—and it is undeniable that, notwithstanding the great improvement in the international situation which may result from the Hoover plan, events since the Report was drafted have gravely diminished the chances of any substantial rise in the near future—the Committee go on to describe the main objective of the central banks acting in co-operation as "to maintain the stability of international prices both over long periods and over short periods." One asks at once, is this feasible within the bounds of the gold standard? That the general maintenance of that standard and the development of an international monetary system depend essentially upon a reversal of present tendencies is plainly recognised. "In two years the creditor countries have increased their proportion of the monetary gold in the world from two-thirds to three-quarters. . . . It is unlikely that the debtor countries can continue much longer to square their international position by parting with gold at the rate of £70,000,000 a year, as they have been forced to do in the last two years."

Even if the necessary revival of international lending takes place and prices rise—indeed even if that were not to come about—there would remain the problem of securing stability, that is to say, of basing upon the available gold resources a sufficient volume of credit to maintain prices at the higher level that is desired. The inadequacy, under present circumstances, of the supply of new gold

The International Gold Standard

and the evils resulting from the mal-distribution of existing stocks are fully dealt with in the descriptive chapters of the Report. The remedies for these troubles are to be found only through international co-operation, and little or nothing can be done without the assent of the present hoarders, but the Committee endorse the recommendation of the Gold Delegation of the Financial Committee of the League of Nations, and express a hope that central banks will in future abandon the circulation of gold coins, discuss together the relaxation (or in other circumstances possibly the tightening up) of reserve requirements, be permitted to reckon balances with central banks of other gold standard countries, or with the Bank for International Settlements, as part of their legal reserves, and not be unduly limited, as the Bank of France is now, in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or its equivalent. There is no one way of making the world's gold supply sufficient for its monetary needs. Various adaptations of the gold standard may be necessary before success is achieved, but at least it is clear that under a rational system there would be quite enough gold to secure both safety and stability.

In future, if we are to be saved from the waste and misery attendant upon long-period variations in international prices, and from the disorders wrought by the business cycle, the domestic monetary systems of the world must severally be based upon the realisation that, as gold has disappeared from circulation, the contingency of what the Victorian theorists called an "internal drain" has been banished as a factor to which gold reserves should be related, leaving only the possibility of an "external drain." The Committee point out—and it is not the least of their services to the public—that under present circumstances it is altogether inappropriate to maintain some standard proportion between gold reserves and the note issue; and that "the sole use of a gold reserve to-day is, therefore, to

The Macmillan Report

enable a country to meet deficits in its international balance of payments, until the appropriate measures can be taken to bring it again to equilibrium." One might add another use, which the Committee implicitly recognise, though they do not name; that is, to give the public, it may be without justification, an assurance of the stability of the monetary system and so to prevent sudden panicky flights from the currency. That is not the only change in our traditional ideas of monetary affairs which the Committee would have us make; it is as well that the imprimatur of a blue-book should be given to the once revolutionary proposition, that "the sense in which the gold standard can be said to be automatic is very limited; it is automatic only as an indicator of the need for action and of the end to be achieved." In other words, we already possess, in some measure, a managed currency.

II. A MANAGED CURRENCY

THE aim of the Committee's recommendations concerning the domestic monetary system is, in brief, to provide a more powerful, more flexible and more effective instrument for managing the currency, within the limits of an international system, itself manipulating the currency and credit of the world according to a definite preconceived plan. The Committee emphatically reject proposals both for devaluating the pound sterling and for abandoning the gold standard altogether. Great Britain's prosperity turns upon her relations with an international system of finance and trade; no attempt of hers at isolation could defend her from the repercussions of instability elsewhere. The Committee add:

If, therefore, this country were to cut adrift from the international system with the object of setting up a local standard with a sole regard to our domestic situation, we should be abandoning the larger problem—the solution of which is certainly necessary to a satis-

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factory solution of the purely domestic problem—just at the moment, maybe, when, if we were able to look a little further forward, the beginnings of general progress would be becoming visible.

Within the limits set by the gold standard, and after the present extreme depression of prices has been deliberately corrected, "the endeavour of domestic management" is described as "to promote the stability of output and of employment at a high level by influencing the regular flow of savings into investment at home and abroad so far as is compatible with the international situation." It is proposals such as that which make Lord Bradbury's flesh creep. "Honesty," he writes, "even if stupid, is a better foundation for credit than the most adroit finesse." But the majority of the Committee consider that the present acute industrial and financial *malaise*, and the prospect of a growing shortage of gold, together provide more than sufficient justification for an experiment in managing the currency system.

The managing authority should be the Bank of England—"independent of political influences, yet functioning solely in the public interest . . . entrenched in the centre of the struggle for profit and with access to the arcana of the market, yet itself aloof and untinged by the motives of private gain." Where is the attack on the Bank of England that the Labour press prophesied? Save for a reservation by the retired communist, Mr. Walton Newbold, it is almost entirely confined to lukewarm criticism of the Bank's failure to expand credit sufficiently between 1927 and 1929.

But the Bank cannot act alone; it requires the loyal co-operation of the joint-stock banks, the discount houses and the private money market, and there is little doubt that it will be able to rely on them in the future as in the past. Indeed, the illuminating description, in one of the early chapters, of the working of the City of London brings out the loyalty that already exists and that has

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been one of the chief instruments whereby the Bank of England has maintained far greater control over the credit structure than has the Federal Reserve Board in America. It is significant that, whenever the Committee ask for the publication of such statistics as the volume of acceptances, or of foreign balances and foreign liquid assets held in sterling, they propose that they should be furnished in confidence to the Bank of England, which would publish aggregates only. This trust would be lost were the independence of the Bank from political influence to disappear, and we shall do well to heed Lord Bradbury's warning that the grant of great and arbitrary powers of currency management to the Bank may sooner or later involve its subordination to Parliament. It is not too much to say that if that were to come about the whole fabric of the system that the Committee envisage would be destroyed.

The Committee recommend such changes in the legal restrictions upon the Bank as would provide it with a far more flexible instrument of management than it possesses at the moment. The changes relate mainly to the gold reserve requirements. At present there is a fixed fiduciary issue of currency of £260,000,000; against the remainder (commonly about £150,000,000) the Bank must hold pound for pound in gold, the Treasury taking the profits on the securities held against the £260,000,000 fiduciary issue. So much for the Issue Department. The amount of notes not in circulation is carried down into the account of the Banking Department, where they form its reserve and in effect measure "the maximum amount of gold which the Bank could part with in the absence of a change in the volume of notes in circulation, unless the powers of extending the fiduciary issue are used." The Committee first of all recommend that the two departments should be amalgamated, and that the Treasury should receive the profits not on the securities held against the fiduciary issue, whatever it may be, but on securities varying in amount

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according to the excess of the Bank's notes and deposits over its gold and silver holdings. The object the Committee had in mind was that the Bank should not be deflected in its policy, as it might conceivably be now, by the fact that any increase in the fiduciary issue would reduce its profits and increase those of the Government, and in fact should be guarded against large variations in profits which might arise out of fluctuations, due to considerations of public policy, in the respective proportions of its gold and its earning assets. It is, of course, true that the Treasury's profits, instead of being fixed, would fluctuate in future. But in this matter it is obviously more important to protect the Bank than the Government.

That, however, is only an incidental proposal. The Committee regard the principle of the fixed fiduciary issue as antique because it falsely relates the immobile gold reserve to the amount of the active note circulation, and serves to "forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used." What is the sense in having a gold reserve which you are not prepared under any circumstances to part with? The Bank of France may know the answer, but the Macmillan Committee do not. So they recommend that there should be a fixed maximum note circulation (they suggest £400,000,000) and a fixed minimum gold reserve of, say, £75,000,000, both variable temporarily under exceptional circumstances. It is not, however, suggested that the Bank would ever, except in war time or equal emergency, allow its gold reserve to fall to anything like £75,000,000. Indeed an essential part of the Committee's proposals is that as soon as possible the Bank's reserve of gold and foreign exchange should be actually enlarged. These proposals taken as a whole are far more rational than the present system, but it follows, of course, that the greater freedom granted to the Bank of England involves greater responsibilities. There is danger that restriction would not be undertaken soon enough, that therefore the

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conditions necessitating it would be prolonged, and that the Bank might find itself deprived of its mobilisable gold reserve while yet the international balance had not been improved. That risk cannot be obviated, but it is worth taking when we consider the absurdity of a system under which the power of the Bank to make up what may be a passing deficit in the balance of international payments, including short-term loans, is made to depend upon a fixed and somewhat arbitrary maximum for the internal note circulation. The circumstances justify the experiment, though again a condition must be that the Bank of England continues to stand outside political influence.

The necessary complement of the grant of these new liberties to the Bank of England is that it should be given greater strength. After an analysis of our international financial position, based on certain figures of short-term obligations which were badly needed by economists, but which have never been published before, and which are even yet incomplete, the Committee conclude "that the Bank of England's liquid assets ought to be increased at the first opportunity to a substantially higher figure, and maintained thereafter at this higher figure as the normal." At the same time, they think "that in the modern world, having regard to the scale of international operations and the size of other money markets, the Bank of England should feel itself free to see, without anxiety, very large fluctuations in its own liquid assets between their minimum and their maximum."

The Committee have several suggestions for providing the Bank with sufficient assets to enable it to strengthen its position in the way indicated. They propose, first, that the Bank should increase its capital. Second, in order to increase the deposits of the joint-stock banks with the Bank of England, the Committee further recommend that the London clearing banks should aim at maintaining a daily average cash ratio of not less than 10 per cent., which would be rather higher than at present; they do not, how-

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ever, propose that this should be a legal obligation upon the banks. This would increase bankers' deposits with the Bank of England by something under £20,000,000. This proposal is linked with one for the abolition by the banks of the practice of "window-dressing"—that is to say, making a special display of strength on the days on which they publish their accounts. The Committee suggest that, if the Bank of England were to maintain reserves of notes at various centres about the country, the joint-stock banks could safely turn, say, £40,000,000 of their present cash reserves into balances at the Bank of England. In return for a relaxation of the traditional secrecy as to its own policy and actions, the Committee recommend that the Bank of England should be furnished with certain hitherto unavailable statistics, most of them to be provided by the banks and finance houses, but some by public departments, especially the Board of Trade, whose vagueness regarding the balance of payments and dilatoriness with the census of production have long been the despair of economic workers. A particularly interesting chapter contains proposals for closer co-operation between the capital market and industry, along the lines of the present relations between overseas borrowers and the merchant banking houses which sponsor their issues.

III. THE BALANCE OF TRADE

VALUABLE as many of these proposals are, the efficacy of every single one of them in restoring and maintaining trade prosperity depends upon an improvement of Great Britain's international commercial position. As long as the demands upon us so far exceed the payments we receive that our gold resources are in constant danger of depletion, it would be idle for us to attempt to restore internal prosperity by an expansion of credit, with its attendant reactions on the balance of trade, and equally

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idle to encourage fresh overseas lending. There are two conditions which must be fulfilled before we can expect a return of foreign balances and a relief from the pressure upon our gold reserves; the first is confidence in the security of our national finances and the second is an improvement in our international trading position. To the problems presented by the latter condition, various members of the Committee address themselves in addenda to the report. Half a dozen, who include Mr. Keynes, Mr. McKenna and Mr. Bevin, while "pinning all their hopes" on a recovery of world prices as an alternative to wage reductions, support the control of imports either by a tariff, with compensation for exports, or by import boards, and the launching of big government schemes of capital development. Professor Gregory trenchantly attacks these proposals, supporting a reduction of wages and salaries, not necessarily in the export industries, but in "the ancillary and sheltered trades whose wage rates and standards have been maintained at the expense of the standard in industries less able to protect themselves." The policy of protection is dismissed by Lord Bradbury as "merely enlarging the list of sheltered trades at the expense of the export trades." Mr. Brand, postulating that, as a condition not merely of immediate recovery, but likewise of the satisfactory management of the currency in future years, the surplus on our balance of trade must be increased, examines in order the alternatives of greater efficiency, wage reductions and tariffs. He concludes that "there are still very big opportunities to reduce costs by greater efficiency in the widest sense of modernising both production and selling and limiting harmful competition"; that reductions of salaries and wages (particularly in the sheltered industries) are necessary, in view of the probable tendency of costs to fall elsewhere even while prices are rising; and that the strengthening of our balance of trade by means of a tariff, while it may become necessary if the nation refuses to put its house in order, is not likely to be as satisfactory for

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our export industries as a reduction of costs under the two other heads.

While we are not prepared to pronounce here upon the merits of these various arguments, we believe that some such eclectic view is the right one. There is no absolute and universal right or wrong about tariffs or wage adjustments. But for those who are inclined to favour import duties, we would call attention to another passage in which the Committee declare their belief "that the first measure towards the restoration of the international price level must necessarily be taken on the initiative of the creditor countries, and that it must consist partly in a greater willingness to buy and partly in a greater willingness to lend." One of the conditions of recovery is a reduction of tariffs in creditor countries, and if Great Britain is to move on the opposite course she must beware lest other countries imitate her. We are in a peculiarly difficult position. As a great creditor country we cannot escape the obligations that are laid upon us by any attempt to hoist the world from the slough that it is in, while at the same time the weakness of our international trading and financial position forbids us to take action for the relief of debtors. Thus the immediate and perhaps most important lessons of the Macmillan Report are addressed to those great creditor countries who are far more secure than ourselves.

But meanwhile we cannot escape the urgent task of setting our own house in order. Those who looked to the Macmillan Committee to provide a ready-made solution for our industrial problem and a happy issue out of all our economic afflictions were doomed to disappointment, because no reform of the monetary system, no amendment of the relations between the banks and industry, can cure ills which go far deeper. A man in the throes of pneumonia may well seek advice regarding the clothes he should wear in order to render himself less liable to catch cold in the future, but he would not expect the prescription to cure his disease or even to prevent its recurrence if he

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goes on inhabiting a bog. It is not a condemnation of the Macmillan Report to say that, until sacrifices are made all round to meet the desperate situation we are in at the moment, its recommendations will help little to restore our economic health. The Committee were not asked to provide a means of escape from the immediate economic crisis. Fortunately we do not need an expert committee to tell us what, in general, we must do. Our budget is unbalanced and our industrial costs are too high. Those are facts beyond question, and they must be turned into the past tense if our monetary system, even amended as the Committee urge, is to withstand the strain that our improvident policies have placed upon it.

DOUBTS AND DIFFICULTIES IN INDIA

TO describe, as we did in our last article from India, the logical series of events which led direct from Lord Reading's speech at the Round Table Conference on January 5 to the conclusion of the Irwin-Gandhi agreement and its ratification by the Congress at Karachi on March 30, was a comparatively simple task. The tale to be told was important, straightforward and dramatic, and the period under examination constituted a natural historical whole, with a clean beginning and ending; the ending, moreover, could be interpreted as a happy one. But on this occasion the problem before us is very different; indeed, to construct a coherent story out of the multitude of discordant and inconclusive occurrences which have taken place here during the last three and a half months is impossible.* All we can pretend to do is to direct the reader's attention to the outstanding changes, tendencies and problems which have arisen, to indicate their probable significance—which is in the majority of instances unpleasant—and to postpone any attempt to gather up the loose threads and knit them into a harmonious narrative unit until three months hence, when our next article will be written in circumstances which, it is to be hoped, will be less confused and ambiguous.

I. THE SECOND ROUND TABLE CONFERENCE

TO start with, the great constitutional conundrum, which for years has dominated the whole intellectual life of India, where political disputations probably absorb more of the mental energies of the educated classes than anywhere

* This article is dated July 26.

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else in the world, appears to the general public to have been brought little if at all nearer solution since the Round Table Conference was adjourned over six months ago. During the first half of that period, that is to say, between the Prime Minister's speech to the Conference on January 19 and the end of Lord Irwin's Viceroyalty in April, the negotiations between the Government of India and the Congress diverted attention from the main issue, since for the time being everything was subordinated to the enthralling question whether the working committee would really be willing or able to discontinue the civil disobedience movement and co-operate with the authorities in restoring the country to normal conditions. But as soon as the agreement was put into effect, and the excitement engendered by the release of the political prisoners had subsided, the constitutional problem resumed its normal place in the popular mind as the most urgent and interesting matter of the moment ; and the seemingly complete failure, during the next three months, of the British and Indian Governments and the Indian political leaders to devise, between them, any means of settling the many extremely complex questions which were left unsolved in January, has caused widespread irritation and disillusionment, and destroyed much of that remarkable " atmosphere " which was perhaps the original Conference's most valuable product.

To every intelligent observer of the ordinary movements of Indian political thought, it was clear that a psychological reaction such as this, which may have serious consequences, would occur unless arrangements could be made, within at the latest three or four months of the adjournment of the Conference, for its resumption at a definite date, and with a known programme and personnel. For an enthusiastic emotional response to any big and hopeful change of policy is as difficult to maintain here as it is easy to evoke ; and so fervent is the desire of the majority of educated Indians that the ideal of a united self-governing India should be realised with the minimum of delay, that they

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find it difficult to watch without impatience the cumbrous mechanism whereby the change is gradually being effected, or to refrain from blaming the operator for the innumerable bits of grit which necessarily get into the works and prevent their functioning smoothly. Nevertheless, although the importance of this emotional factor was well understood, so many practical difficulties have stood in the way of a speedy resumption of the constitutional negotiations that serious delay has been unavoidable.

The first setback originated in England, within a few days of the conclusion of the Irwin-Gandhi agreement. On March 11 the news was received here that Mr. Baldwin, at a meeting of the India Committee of the Conservative party in the House of Commons, had declared that the Conservatives would not be represented at the contemplated sittings of the Round Table Conference in India. What exactly this announcement should have been interpreted to mean was revealed two days later, when the Conservative leader made it clear, during the debate on Indian affairs in Parliament, that much of the alarm which his statement had immediately aroused was unjustified. His party was not in fact embarking on a policy of non-co-operation, and thereby repudiating the statement of policy he had made on its behalf on January 26; all that they had decided was that the project conceived at the end of the Conference for resuming its sittings in India during the summer was unsound, and that if a British delegation were indeed to go to India, it should not be an all-party delegation, but consist of representatives of the Government only. The Cabinet, as is known, was forced to the conclusion that no useful purpose would be served by despatching a British delegation to India at all, and that such discussions as were required out here before the Conference was resumed in London must be held between members of the Government of India and Indian political leaders. Some confusion was undoubtedly caused by this change of plan, but it did not amount to very much nor last for long; and the reasons

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for the difficulties that have subsequently arisen must be sought in this country only.

At the outset, a certain amount of delay was inevitable owing to the change of Viceroys ; for Lord Willingdon, despite his experience of Indian affairs, naturally required, before making any important decisions, to spend a few weeks in examining the new situation which had developed since he left the country in 1924, and in acquainting himself with important officials and political leaders. But before the month of April was out it was more than ever obvious that the greatest and most enduring impediment to progress was the communal problem, and that while there remained any chance of its being settled on Indian soil, within the six weeks or so that might legitimately be allotted to the purpose, it would be undesirable to make precise arrangements for resuming the Conference in London, where the Hindu-Moslem differences had defied all attempts at solution. For it is generally agreed that a settlement between the Hindu leaders and the representatives of the Moslems, Sikhs, and other minority communities should, if possible, be spontaneously effected in India rather than imposed from without ; from the British point of view, this policy is obviously the best, and it has the whole-hearted support of every self-respecting Indian nationalist, who would naturally consider it humiliating that in these days the domestic difficulties of his compatriots should still have to be settled by aliens. Moreover, Mr. Gandhi, as usual in the forefront of nationalist opinion, had publicly stated, not long after his release from gaol, that it would be futile for the Congress to be represented at the second Conference unless the communal disputes had been composed beforehand ; and since one of the chief merits of the Irwin-Gandhi agreement had been that it made possible the participation of the most powerful political organisation in this country in the forthcoming constitutional negotiations, it was obviously necessary that this potential asset should not be

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jeopardised by any precipitate action on the part of the Government.

II. THE MOSLEMS AND THE PRINCES

AS time passed without any progress being achieved it became clear that some constructive effort was required if the authorities were not to be blamed for inactivity ; and on May 20 it was officially announced that, if suitable arrangements could be made in India, the meetings of the Federal Structure Sub-Committee would be resumed in London on June 29. The moment chosen seemed not inauspicious ; for the discussions between the rival schools of Moslem political thought in Bhopal earlier in the month had not ended in deadlock, and Mr. Gandhi's visit to Simla during the previous week had been considered tolerably successful. However, during the next fortnight or so a fresh crop of difficulties sprouted, and it was soon evident that there was no chance of a meeting of the Federal Structure Sub-Committee before September at the earliest. A preliminary obstacle was that many of the prospective delegates indicated that they would find it very difficult, for personal reasons, to leave India at such short notice. But much more serious than this was the fact that prospects of a communal settlement, which had seemed, for a moment, not absolutely unattainable, were now fast receding. The Sikhs had already shown indications of resenting Mr. Gandhi's suggestion that they and the Moslems must reach mutual agreement on the Punjab question before the Congress could let them fill in the " blank cheque " which they had been promised some months previously, and the Moslems were even more suspicious. As far back as May 18 a meeting of the Calcutta Moslem Youth Conference had reaffirmed the decision, made during January by the All-India Moslem Conference in Delhi, that separate electorates for minorities should be retained ; and thenceforward signs multiplied that the Nationalist Moslem

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group, which has the support of the Congress party in favouring joint electorates, was losing ground not only in Bengal, but in other parts of the country. On June 1 its seemingly pro-Hindu policy was strongly denounced at the All-India Moslem Volunteers Conference in Bombay, and two other important meetings in the city during the next fortnight, namely the All-India Khilafat Conference and the All-India Moslem League Conference, adopted a similar attitude. And when on June 22 the so-called Bhopal conversations between representatives of the Nationalist Moslem group and their more conventional co-religionists, which had been transferred, after some embarrassing postponements, to Simla, completely broke down, all hope of the Hindu-Moslem question being settled on Indian soil during the next few months had to be abandoned. Moreover, towards the end of May there were indications of trouble of an entirely different kind. Ever since the return of the Princes and their representatives from London, it had been suggested that objections to the idea of an all-India federation were likely to be raised in certain quarters, and for a week or two after June 12, when the Maharajah of Patiala actually published his remarkable denunciation of the scheme formulated at the Conference, it was difficult to estimate how far the opposition would extend. In point of fact, the Maharajah's action seems to have had the contrary effect to what he presumably desired, for at the important series of meetings held in Bombay between June 28 and July 4 the support which the opponents of the federal scheme secured from the Princes and ministers of the States who were present was surprisingly small, and opinion, on the whole, definitely consolidated in favour of the policy originally adopted at the Conference. But while so crucial an issue remained in suspense, to arrange a resumption of the sittings of the Federal Structure Sub-Committee was obviously inexpedient if not impossible.

Until the first week in July, therefore, the progress made

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towards the solution of India's constitutional difficulties appeared to be negligible, and great uncertainty and disillusion prevailed. But during the last fortnight the issues have clarified, at least in so far as the Princes and the Moslems are concerned. As regards the former, the great majority now appear to be effectively committed to the policy outlined at the first Round Table Conference, and although the detailed arrangements for an all-India federation will doubtless take some time to put into effect, and may not be approved by certain rulers, the major Princes with few exceptions have evidently decided that their future interests will be served best if they come into direct constitutional relations with British India now, rather than remaining in a state of autocratic isolation which the tendencies of the modern world may render increasingly precarious. To enter a political system which is bound to be predominantly democratic in tone is, for them, a step by no means unattended with danger, as the practically communistic programme adopted by the Indian States Peoples Conference in Bombay during the second week in June clearly showed; but on the other hand it may be expected to prove popular, owing to its patriotic flavour, and will probably secure for the Princes greater control over the affairs of their country than they could otherwise obtain, and thus enable them to apply the brake to any reformist movements, either in their own territories or in British India, which they consider precipitate or undesirable, and incidentally also to escape much of the somewhat irksome control of the Foreign and Political Department.

Doubts as to how far the Princes were really likely to agree to a federal constitution having therefore been practically set at rest, it proved possible, six days ago, for the Government of India to publish a final list of prospective members of the reconstituted Federal Structure Subcommittee, and it may now be taken as settled that this body will resume its sittings in London during the first week in September. A point which has evoked some

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comment is that no members of the Nationalist Moslem group have been invited to join it ; and if the Minorities Sub-Committee is found, when the invitations are issued a few days hence, to contain no representatives of this school of thought either, it will be held to prove the truth of the rumours now current, that representatives of the All-India Moslem League recently announced to the Government their refusal to participate at all if their Nationalist co-religionists were asked to attend the Conference.* In any case it is certainly a fact that conventional Moslem opinion has hardened still further since the latter part of June. The speeches made at the meeting of the Nationalist Moslem Conference at Faridpur on the 27th and 28th were distinctly less favourable to the ordinary Congress point of view than had been expected, and a strongly communal attitude was adopted by the All-Bengal Moslem Conference at Dacca on July 11. Moreover, the fact that the Congress Working Committee, after strenuous attempts in Bombay between July 9 and 18 to bring round Mr. Shaikat Ali and other representatives of the All-India Moslem League to its own point of view, has now definitely plumped for joint electorates, is generally considered to show that Mr. Gandhi and his followers have abandoned all hope of effecting any agreement in the near future with that large section of Moslems whom they consider to be intransigent communalists. On the other hand, some satisfaction can be derived from the fact that the working committee, at its previous sessions in Bombay between June 8 and 11, enabled Mr. Gandhi to withdraw from the position he had previously adopted on the Hindu-Moslem question, and authorised him to proceed to London, "other conditions being favourable," even if no communal settlement were achieved. What exactly the qualifying clause may prove to mean remains at the moment obscure.

The discussions in Simla during the course of the last

* The list of members of the Minorities Sub-Committee, published on August 5, includes one Nationalist Moslem, Sir Saiyid Ali Imam.

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week were by no means easy, but on the other hand the rupture that was at one time feared did not occur, and Mr. Gandhi's name is among those which have been added to the list of people invited to serve on the Federal Structure Sub-Committee. On the whole it seems probable that, whether the Congress is really in earnest about the Conference or not, the Mahatma will attend it, if only for the sound strategic reason that Simla or Delhi would be a far less effective place in which to stage a final breakdown than London. In other respects, too, the prospects for the Conference now seem somewhat brighter. The report of the special committee appointed to work out the practical details of the reforms proposed at the Conference for the North-West Frontier Province has just been published, and seems to have been well received, and two experts have recently been deputed to investigate the probable financial consequences of separating Sind from the Bombay Presidency. The Indian Sandhurst Committee, which was set up at the suggestion of the Defence Sub-Committee of the Conference, completed its investigations some weeks ago, and its recommendations will be available during the discussions in London in the autumn. In addition, as was indicated by the *communiqué* issued by the Reforms office on June 12, a great deal of useful spade-work has been undertaken by the Government of India in other directions. Preliminary investigations into the possibility of establishing Orissa as a separate province are in progress, and a committee is shortly to be appointed to enquire into the detailed implications of this problem; government departments have been busy classifying administrative subjects under the headings of federal, central, and provincial; and a mass of statistical data has been accumulated on matters of finance. Thus, by the time the Conference resumes its sittings, it will at least have plenty of material to work upon, and unless some major political difficulty is encountered, its conclusions should be much more definite than those provisionally reached in January.

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III. AGRARIAN DISCONTENT

WERE it not for the fact that, when this article is read, the constitutional aspect of Indian affairs will probably be engaging public attention in England, we would have devoted far more space to discussing the many other topics which have been troubling thoughtful observers here, and which will now have to be treated somewhat perfunctorily. To the resident in this country, by far the most conspicuous and unnerving phenomenon of the last three months has been the increasing difficulty of the administrative problems with which the Government has been confronted, and the multiplicity of their immediate causes. Some are directly attributable to the working of the detailed provisions of the Irwin-Gandhi agreement, others to agrarian disturbances, or communal tension, or labour disputes. In Burma, what was thought last December to be a brief and unimportant rebellion has proved extraordinarily intractable, and assumed such dimensions as to bring about the collapse of the ordinary administrative machine in at least two districts; while the activities of terrorists throughout the country, despite the success of the police in effecting arrests, have become increasingly frequent and alarming. Those who endeavour to look below the surface for the ultimate origin of these various disorders will probably trace them to two sources, the one socio-political, and the other economic. Because the civil disobedience movement last year, and the confusion which it brought in its wake, were no more than symptoms of an increasing malaise from which India has been suffering for years as a result of the impact of Western ideas upon a static Oriental civilisation, and because it happened to coincide with the onset of an unprecedented economic depression which is still increasing in severity, it is impossible to contemplate the future without foreboding.

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To turn now to details, Mr. Gandhi has undoubtedly been sincere in his endeavours to implement the terms of the agreement, but the same cannot be said of many of his followers, and the fact that the truce still holds is about the best that can be said of it. As was to be expected, the release during a period of about a month of thousands of political prisoners throughout the country, many of them in a state of great mental excitement, caused considerable anxiety and confusion, and incidentally led to serious dissensions within the Congress ranks in many places, particularly the Punjab and Bengal. At the outset a tendency was apparent among the younger and more exuberant Congressmen, which was undoubtedly encouraged by some of the leaders, to treat the agreement as no more than a convenient means whereby the Congress might regain its strength and prepare for further strife; and the district authorities were much exercised as to how far they could allow these activities to develop without incurring responsibility for the disturbances to which they were liable to give rise. During May and June the situation was particularly difficult; speeches were made throughout the country, frequently by responsible Congress leaders, on the necessity for maintaining the "war mentality," the police were boycotted and obstructed, as for instance at Manbhum and Bhagalpur in Bihar during May; and attempts were made to set up parallel courts in many places, the most conspicuous being at Midnapore in Bengal. From practically every province reports were received of a growing difficulty in securing routine information, and of the decline in the morale of minor officials and government servants owing to the inactivity of the authorities. The criminal statistics were also becoming very disquieting, the number of reported cases of dacoity in Bengal, for example, being far higher during the first five months of 1931 than the average for whole years in the past.

But perhaps the most sinister feature of the whole business has been the agrarian agitation fostered by the

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Congress in various parts of the country. The plight of the peasantry at present is very distressing, for although the harvests of 1930 were fairly good, the extraordinary fall in commodity prices rendered a great deal of the produce unsaleable, and in consequence many of the cultivators have no money with which to pay their rents ; and in the United Provinces, which, with Gujerat, has been the most conspicuous centre for disturbance, the situation is particularly serious, since for several seasons prior to 1930 the rainfall was markedly defective. But that the Congress should exploit these rural difficulties for political purposes is deplorable, even though to some degree they may be inspired by sympathy and altruism. For the perils of such activities are impossible to exaggerate. About 90 per cent. of the inhabitants of India are poverty-stricken peasants, not quite so ignorant and superstitious now as they were ten years ago ; the amount of uncultivated land available for agricultural purposes, despite the development of irrigation, is extremely limited ; and the total population of the country has increased by no less than 36 millions in the last ten years, the increase having been greatest in the rural districts. The facts speak for themselves ; the traditional apathetic contentment of the ryot may strike the reformer as deplorable, but once it is destroyed a catastrophe would appear to be inevitable. And if the present acute economic depression is accentuated by a failure of the monsoon, as seems by no means unlikely, since the rainfall for the month of June was 23 per cent. in defect throughout the whole of India, the consequences, even without the assistance of the Congress, would be extremely serious. Already there have been sporadic agrarian disorders in many parts of the country. A zemindar and his assistants were murdered near Allahabad during the second week of June, chaukidars* and police officials have been assaulted, and alarming demonstrations have been

* Watchmen.

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frequent; and in the circumstances there seems every probability that the trouble will extend.

IV. TERRORISM

SO far as communal riots are concerned, their number, despite the continued political tension between the two major communities, has been substantially less than during the first three months of the year, and the big religious festivals have passed off comparatively peacefully. The most serious outbreak took place not in British India, but in Kashmir, where nine people were killed and many injured on July 13, and communal disturbances occurred in two other States, namely Pudukotta and Janagadh, about a week later. The only noteworthy clash in British India was a minor riot in Cawnpore on May 30, during which the police had to fire and two people were killed. The number of terrorist outrages, however, has been very great, and that this has been so, despite the successful *coups* brought off by the police in the United Provinces and the Punjab, the strict application of the special ordinances in Bengal and Burma, and the incarceration of several presumed terrorists in connection with the Delhi conspiracy case, clearly shows how widespread the tendency to violence has now become. In the last week of April bombs were thrown at Europeans sitting in the pavilion of the Royal Calcutta Golf Club. During May, an alarming plot was discovered in Chittagong, electrically-wired canisters containing powerful explosive having been found near several important buildings; a plan for murdering Europeans was believed to have reached an advanced stage in the Bakarganj district of Bengal; bombs were thrown at Mainpuri in the United Provinces and near Tippera in Bengal; a constable was shot dead and two police officials injured in a train near Suchetgarh in the Punjab; and an explosion occurred in the Sanatan Dharam school at Cawnpore. Early in June

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Cawnpore was the scene of a couple of further outrages, two constables having been shot when attempting to effect arrests, and a bomb having gone off in the railway station. In the same month bombs were flung and shots discharged at a Moslem cloth dealer in Lucknow, and a policeman was killed by a bomb in Patna. During July there was yet another murderous assault at Cawnpore, and within the last week there has been the deplorable revolver attack on the acting Governor of Bombay, in a college at Poona, and the even more deplorable demonstration made against him by the students afterwards, followed by the stabbing of two British officers in a first-class compartment of the Bombay express.* In some quarters there has been a tendency to attribute most of these outrages to the extraordinary emotional reaction evoked throughout the country by the execution of the notorious terrorist Bhagat Singh in March ; but that this is not the true explanation, and that the real causes lie deeper, is indicated by the fact that despite the attempts of the extremist press to belaud Dinesh Gupta, the murderer of Colonel Simpson, and Hari Kishen, the assailant of the Governor of the Punjab, as national heroes, no particular excitement occurred when they went to the scaffold.

V. FINANCE

WE may conclude this article with a paragraph on the lugubrious subject of finance. For the last eighteen months or more the revenues of the central government have shown an extensive and persistent decline ; receipts from income tax have fallen off sharply ; customs during the second three months of the year, despite the increase in the duties, have yielded only Rs. 10.42 lakhs as against Rs. 12.33 lakhs during the corresponding period of 1930 ; and the gross earnings of State-owned railways during

* Since this article was written, Mr. Garlick, a Calcutta Sessions Judge, has been shot dead by a young Bengali in his court.

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April, May and June this year are estimated at Rs. 22,19 lakhs, as compared with Rs. 25,34 lakhs in 1930 and Rs. 26,04 lakhs in 1929. Most of the provincial governments are in a similar plight, and numerous committees have now been set up to suggest means of reducing expenditure. The general effect of this depression and uncertainty on the propertied classes has been extremely unsettling, and particularly so on the British residents in India. Their prevalent attitude is one of helpless and cynical pessimism. The commercial community is in grave financial straits; profits as a rule have steadily declined since the autumn of 1929, and as yet there seems no sign of improvement. Moreover, numbers of British merchants are convinced that many of their troubles are directly attributable to the civil disobedience movement, which, they believe, need never have occurred but for the weakness of the Government; and they have grave apprehensions of the exercise of commercial discrimination against them under the new constitution. As regards Europeans in government employ, the retrenchment campaign, coming on top of the decision that the ultimate responsibility for the administration of this country shall henceforward be transferred to Indians, has caused very serious unrest. Many have good reason to doubt the safety of their jobs or their prospects; and those whose position is more secure, but who are still some way from earning their pensions, are asking themselves whether existence in India will be tolerable for an Englishman when he is exposed to the irritations and perhaps injustices which he may expect at the hands of nationalists rejoicing in the exercise of their new powers.

India. July 26, 1931.

NOTE: On August 13 the Congress announced that, as the Government of India refused arbitration upon alleged breaches of the Delhi Pact by provincial governments, Congress would not be represented at the Round Table Conference, and Mr. Gandhi cancelled his passage. The Congress, however, apparently regards the Pact as still in force.—EDITOR.

GREAT BRITAIN: THE NARROW WAY?

I. THE ECONOMY PROBLEM

EVENTS have moved rapidly in this country during the past three months, and the country finds itself faced with a situation which, although it merely reflects an intensification of previously existing factors, is new in the sense that it has been freshly and dramatically brought within the knowledge of the public. For a long time Parliament, under the lead of the Government for the time being, has proceeded on the assumption that the national resources could stand moderate and progressive increases of the strain to which they have been continually subjected during the past decade. Those who have proclaimed the existence of a great and growing emergency have more than once received the assent of Mr. Snowden, but no action on the scale required has yet followed these warnings. Mr. Snowden has, no doubt, effectively resisted many extravagant suggestions, but it is obvious that concessions have had to be allowed here and there, few of them very expensive in themselves, but collectively sufficient to require a large increase in the national liabilities and a considerable increase in actual taxation. The policy of the Government has apparently remained based on the assumption that, although the state of trade and of the national finances was disquieting, there was time for the postponement of decisions pending inquiry, that there was some hope of matters righting themselves, and that meanwhile the nation could afford a modest

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programme of expansion in the social services and a large programme of palliative relief works. If these assumptions existed, they have been subjected to three severe shocks.

An early blow to complacency was administered by the Treasury evidence before the Royal Commission on Unemployment Insurance,* and by the interim report of that body. The second shock was the doubt thrown, in the course of the mid-European financial crisis, upon the capacity of the Bank of England to maintain the pound sterling at its full international value without crippling losses of gold, and upon British credit generally. The third shock came with the calculations and suggestions of the Economy Committee, appointed last March at the instance of the House of Commons—Mr. Snowden's remark that he could write its report himself in advance will be within the recollection of our readers. The situation can best be described by a brief analysis of these three events.

The Unemployment Insurance Commission

The appointment of the Royal Commission arose out of the Government's recognition of the need for putting the Unemployment Insurance Fund on an insurance basis. The easiest course was to go on paying benefit from the Fund as long as its resources held out, borrowing the balance required to pay claimants on it, and using the proceeds of national taxation to pay benefit to those unemployed who could not qualify to draw it from the fund. Miss Bondfield had admitted that to go on borrowing would be dishonest, but the alternative of confining the insurance system to the proportion of the unemployed that the fund would support, and dealing with the rest by some new form of poor law, raised a prospect which it was extraordinarily difficult for any Government, and particularly for a Labour Government, to face. A Royal Commission, however, was appointed to face it and pressed

* See THE ROUND TABLE, No. 82, March 1931, p. 381.

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to issue an interim report. This report* was published on June 5. The Commission calculated, on the basis of 2,500,000 unemployed, that the total cost of the unemployment benefit scheme this year would be about £119,000,000 (of which £89,300,000 must be met by the Exchequer); the Treasury witness had shown that borrowing to meet the deficit on the fund now practically cancelled out the Sinking Fund, and that the national accounts were beginning to present "the ordinary and well-recognised signs of an unbalanced budget." The majority report† recommended an increase of contributions, a reduction of benefits, a limit of the insurance benefit period to 26 weeks in any one year, and the application of special tests to claimants belonging to certain classes. These recommendations were expected to reduce the cost (including debt) falling on the Exchequer by £30,000,000 a year. As a whole they were at once widely denounced in Labour circles, and the Trades Union Council prepared to launch a campaign against the report. The Government, however, decided to wait for the final report of the Commission, which may be expected towards the end of the year; and took no action, except to produce a Bill dealing with certain anomalies in the insurance system. This Bill proposed to allow the minister to draw up regulations governing the grant of benefit to certain classes of claimants, namely short-time, seasonal and intermittent workers, and married women, the broad effect of which would be that no person within the classes affected should draw benefit if at the same time he were earning substantial wages for broken periods of work or, in the case of married women, unless sufficient contributions had been paid after marriage to show that the claimant was really in the labour market. The Bill did not pretend to be a general reform, and concessions made to the Labour left

* Cmd. 3872.

† Two members signed a minority report, objecting to the increase in workers' and employers' contributions, the reduction of benefits, and some of the other recommendations of the majority.

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wing during its passage much reduced its scope. At the very most, it will affect a few hundred thousand people out of the 2,700,000 on the register, and effect a saving of a few million pounds on a cost of over £100,000,000. It contained, however, an interesting administrative innovation whereby employers and employed, as being directly interested in unemployment insurance, are brought in to serve upon a new advisory committee which is to help the minister in framing regulations. This piece of machinery, although restricted by the Bill to so small a field, may well prove to be an essential part of the general reform of the system. But meanwhile Labour opinion has left no room for doubt that general reform on the lines laid down by the Committee is unacceptable to them, even though its absence involves an unbalanced budget.

The Mid-European Crisis

Another and still more unmistakable warning of the supreme importance of maintaining British credit was given by the precipitation of a financial crisis in central Europe. The crisis began with the revelation that the biggest financial institution in Austria, the Credit-Anstalt, was in serious difficulties, and it had to be tided over by prompt assistance from the Central Banks, including the Bank of England. Meanwhile signs of even greater difficulties were becoming apparent in Germany. Directly he was convinced of the imminence of the danger, President Hoover suggested that all inter-governmental payments arising out of the war should be suspended for a year. The British Government at once accepted the suggestion, though it involved an extra burden upon the British taxpayer of about £11,000,000. The announcement of the President produced a distinct improvement in the situation, though its general acceptance was delayed for some time, and its psychological benefits were gravely diminished, by the reluctance of the French Government to grant so great a measure of relief to Germany

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unconditionally. Meanwhile a general financial collapse in Germany was only averted by the closing of the stock exchange and the banks. These events are dealt with more fully elsewhere, and it is only necessary to say here that the effect of these disturbances was to incline holders of liquid international assets, many of which take the form of balances in London, to call in their money. The pound sterling was unsupported by any improvement in the trade balance or by any attempt to restore budgetary equilibrium. The Bank of England lost £30,000,000 of gold in a fortnight. The bank rate was raised in two stages from $2\frac{1}{2}$ per cent. to $4\frac{1}{2}$ per cent., and this effectually diminished the outflow of gold. But to give Germany a breathing space it was clearly necessary that foreign balances, including British balances, should not be withdrawn from that country, and obviously British balances might have to be withdrawn unless the pound were supported. On August 1 it was announced that the Federal Reserve Bank of New York and the Bank of France had opened a credit of £50,000,000 in dollars and francs for the Bank of England. At the same time the Bank obtained permission to make a small increase in the fiduciary issue. Mr. Snowden confessed in the House of Commons that the difficulties with which the City was struggling, involving as they had a rise in the bank rate and in the rate of Treasury Bills, had prevented the launching of a huge debt conversion operation which would have resulted in a large saving of interest. Only an improvement in British credit can make possible a profitable conversion on a large scale, and even before the crisis British credit was weak. The rate at which the Government could borrow for a short term was really no criterion, since it reflected the insecurity of other forms of investment and the general downward trend of interest rates during a slump. In the debate during which Mr. Snowden made his announcement the situation was summed up in very similar terms by himself and Mr. Chamberlain, both of whom pointed out that British

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resources were still enormous, but that British credit must be maintained by a balanced budget.

The Economy Report

It is still too early to say whether identity of expression means identity of views upon what is a balanced budget and how the budget is to be balanced. All that is certain at the moment is that the budget presented last April has been wholly belied by present circumstances, and that the budget for 1932-33 will present a very difficult problem. These facts were brought home by the report of the Economy Committee, issued on the very day that Parliament adjourned. The majority estimate that next year the gap between revenue and expenditure (including normal provision for debt redemption) will be £120,000,000. This figure allows nothing for the anticipated deficit on this year's budget, which other authorities have put at £50,000,000, and which ought, according to the generally accepted principles of British public finance, to be carried forward and made good next year. On the principle that sufficient unto next year is the evil thereof, the report proposes to fill most of the gap of £120,000,000 with economies totalling £96,578,000, a figure which would balance the current items of the budget and leave some £30,000,000 for the sinking fund. It should be noted that specific sinking funds attached to the terms of different loans total considerably more than this figure, and that on the estimate of the majority report the Government would have to borrow to pay off debt even if the proposed economies were effected. The report observes that although the cost of national defence has been cut to the bone, about £4,000,000 more can be pared off, chiefly from the pay of the personnel of the fighting services. It declares that, broadly speaking, the pay of civil servants is not too high for what they have to do—a timely answer to those who imagine that our troubles are due to the cost of the bureaucracy and not to the policy which the bureaucracy has to carry out. But it relies

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mainly upon cuts in the social services, its largest recommendations involving a reduction of the Exchequer contributions by £66,500,000 for unemployment insurance* and £14,000,000 for education. The only other suggestion which would mean any large financial change was that the Road Fund should cease to be a separate account, and that expenditure upon the schemes which it finances should be reduced by nearly £8,000,000. There are, in addition, a large number of suggestions designed to prevent expansion of the cost of existing services in future years.

The scheme of economy thus outlined is admittedly distasteful ; but the signatories of the majority report may ask with reason whether there is any less distasteful alternative to the prospect of continued budgetary deficits. Their own scheme has not escaped criticism. One of their proposals—in which the minority concur—is to abolish the Empire Marketing Board. That body, which cost some £600,000 last year, was set up in accordance with an agreement with the Dominions, and its work has been much appreciated by them ; it is the only piece of inter-imperial machinery devoted to constructive economic purposes. Again, the £66,500,000—more than two-thirds of the total economies suggested—to be saved on Unemployment Insurance is not all genuine economy. About £17,000,000 is merely transferred from the general taxpayer to industry in the form of increased contributions and of contributions from industries previously exempt from compulsory insurance. The main criticism, however, of the scheme is that it fails to include the principle that the amount of contributions should have an actuarial relation to the amount of

* The recommendations of the Economy Committee on this point differ substantially from those of the Unemployment Insurance Commission. Larger increases of contributions and larger decreases of benefits are proposed than the Commission thought fit, and other proposals differ widely. It should be pointed out, however, that two members of the Royal Commission thought the changes designed to relieve the burden on the national finances might reasonably have been carried further, and that the Commission's report was not a final one.

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benefit obtainable. But in support of their proposals the Committee are able to adduce three principles which it is difficult to question, namely, that the rise in the value of money provides a strong *prima facie* case for the revision of money obligations fixed under other conditions, that existing financial difficulties make it necessary for the nation to consider seriously what it can afford and not merely what is desirable, and that only by the strictest regard to economy and efficiency can trade be restored to prosperity and unemployment substantially diminished.

The signatories of the minority report, the two Labour members of the Committee, contend that a contraction of the social services is false economy. They consent to some reductions in the salaries of teachers, but they refuse to ask for any sacrifice from the recipients of public bounty ; at least until a corresponding sacrifice is exacted from the holders of government loans. The minority report does not view the prospect of an unbalanced budget with indifference, but it thinks that, failing economy in the service of the debt, the gap can and should be filled by fresh taxation, and it selects the "holders of fixed incomes" as the proper persons to bear the new burden, because they have profited by deflation. The minority report does not give figures showing what the results of its proposals would be, but so far as can be calculated such incomes would have to bear an extra charge of over three shillings in the pound, and although it would not be true to assume that the capital value of fixed interest-bearing securities would fall in corresponding measure, yet it would probably suffer a sufficient depreciation to react seriously on the yield of death duties and on the value of company reserves. The minority report likewise admits, though it proposes no method of avoiding, the injustice of treating all the holders of such securities alike, no matter when the purchase was effected. The injustice may nevertheless be very striking. A person who bought 2½ per cent. Consols thirty years ago has suffered a capital depreciation of about 40 per cent., while there are other

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holders who have bought government stock at the top of the market this year.

The issue of these reports has once again brought to the front the old suggestion of a National Government. Its adherents are rightly convinced that there is very little prospect of substantial economies being effected except upon the responsibility of Parliament as a whole ; but they have hardly thought out their case. The reports do not increase the chance of an agreed policy. On the contrary, they throw into sharper relief the contrast between the Labour and the anti-Labour schools of thought. The minority report not only repudiates the idea of balancing the budget by lowering expenditure, but also, by implication, repudiates the raising of more revenue by indirect taxation such as a revenue tariff. All talk therefore of the formation of a National Government, or even of an economy bloc, is premature until the Labour party and the Labour Government declare whether they mean to stand by the principles of the majority report or by the principles of the minority report. The Government have appointed a Cabinet Committee to consider the report ; and they will have to show their hand, before Parliament reassembles, at the party conference in September.

Party Alignments

Our financial and economic dangers may produce a new alignment of parties ; but at the moment there has been no substantial change. Three Liberal members of Parliament—Sir John Simon, Mr. Ernest Brown and Sir Robert Hutchison—have openly broken away from the official Liberal policy of supporting the Government, and some twenty more are believed to be restive. But enough of the party remain definitely more attached to the radicalism of the Government than to conservatism, and it looks as if the Government would be kept by them in office so long as it can keep its own followers in order. The threat from Sir Oswald Mosley's New party appears to be

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diminishing, and two of its six original members have already abandoned it. The Independent Labour party shows even more reluctance to turn the Government out than to endorse its policy. A Parliament whose continuance depends on a nice balance of political interests has naturally proved rather ineffective. The Government during the financial crisis lost none of the prestige which it has gained in the sphere of foreign affairs, but its record on the domestic side during the past three months is certainly not impressive. Most of Parliament's time has been spent on the land tax clauses of the Finance Bill. That proposal finally emerged with its scheme for the valuation of land practically unimpaired, but with the tax itself reduced to negligible proportions, at least for the first year of its incidence (1933-34). Mr. Snowden agreed to further large exemptions—notably to exemption of the property of educational institutions, and of most playing fields and open spaces—and he further consented to reduce the tax on developed property in response to a Liberal agitation which threatened at one time to prove dangerous. He retained, however, the principle of taxing all privately owned land. Other legislation which has reached the Statute Book includes the Land Utilisation Bill, over which the Government had to compromise with the House of Lords by dropping the provision for large-scale State farming; and the Agricultural Marketing Bill, which lends statutory powers of compulsion to marketing schemes which are approved by a substantial majority of the interests concerned, has also been passed. The Rural Housing Bill sets up a committee to provide some 40,000 labourers' cottages by offering an extra subsidy of a capital value of £2,000,000 and is the fruit of the Government's acceptance of Liberal pressure to adopt an intensive housing programme. The Electoral Reform Bill, which provides for the "alternative" voting system and the abolition of plural voting, has not yet been passed, having been practically destroyed by the Lords. The Government will

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have to decide whether to negotiate a compromise or to introduce it again under the Parliament Act, but the Bill has lost much of its political relevance. If it was brought forward by Labour in the hope of securing a reversion of Liberal votes in the constituencies, recent by-elections seem to show that the vote has become smaller and that it is not very readily transferable to Labour candidates.

The quarter under review has been remarkable for the development of a supreme financial and economic crisis. It needed no committee's report to emphasise the urgent necessity of decision, and the return to London from their holiday of the Prime Minister and several of his colleagues, and also the visit of Mr. Baldwin, Mr. Chamberlain and Sir Herbert Samuel to Downing Street, indicate as we go to press that the necessity is realised. The Prime Minister has declared that the budget is to be balanced ; but he did not say to what extent it is to be done by economies and to what extent by means of fresh taxation, and at the moment of writing it is impossible to tell.

II. INDUSTRIAL RELATIONS

NO light has come to dispel the industrial darkness. The outlook in the summer months was almost uniformly unfavourable. The seasonal improvement was short-lived, and the indices of industrial activity gave little ground for hope of early revival. But the deepening of the depression has, so far at any rate, been accompanied by no serious rupture of industrial relations. From the clear cut views expressed by such bodies as the National Confederation of Employers' Organisations earlier in the year, it might have been supposed that the reduction of manufacturing costs by drastic wage reductions was the first thought of organised employers. But in actual negotiations their policy has proved by no means so ruthless or consistent. The pace of the wage reduction movement

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has not been rapid, and the disposition towards conciliation has markedly affected the character of the compromises that have been reached.

The extent to which wage reduction has gone is not easy to measure. The Ministry of Labour's statistics show a reduction of £222,000 in the weekly wage bill in the first six months of this year; some 2,000,000 workpeople, it is computed, have lost on an average 2s. 3d. a week, or about 3 per cent. In most of the trades affected reductions appear to have been of the order of 2 to 5 per cent.; the largest cuts have been in the pottery trade (10 per cent.) and in the textile trades. The general average for all workpeople was, however, little changed by the movements of the first half of the year. Professor Bowley's index number, based on a number of selected industries, shows a fall of $1\frac{1}{4}$ per cent. in the six months, which agrees closely with the $1\frac{1}{4}$ per cent. fall in the index of the Trades Union Congress Research Department. The Ministry of Labour's estimates, based on a wider range, give the average of weekly full time rates in June as 70 per cent. over 1914 (compared with 70-74 per cent. in 1930), and of hourly rates at 90-95 per cent. (compared with 90-100 per cent.). From December 1924, to June 1931, there was, according to Professor Bowley's index, a fall of 3 per cent. in the level of wages, while the cost-of-living index number fell during the period by 16 per cent.

The gravest crisis of the last few months was in the coal industry, and it was not the direct consequence of the depression. Its date was settled by Parliament in 1926 when a five years' term was set to the Eight Hours Act. The Labour Government's Act of 1930, which reduced hours to $7\frac{1}{2}$, still left the alternatives of a reversion to the 7-hour day on July 8 or fresh suspensory legislation. In spite of three months of negotiation between owners and miners, there was the inevitable breakdown at the last minute and the inevitable government intervention. The owners were prepared, as the price of the indefinite

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continuance of the $7\frac{1}{2}$ -hour day, to guarantee present wages for twelve months. The miners wished for an assurance that at the end of this period wages would be protected by some form of national joint authority. After much delay the owners screwed themselves up to offer that a joint committee should meet periodically. This certainly marked an advance on their earlier attitude towards national negotiations, but there were strong forces among the miners against such a compromise. South Wales, smarting under the wage reductions of the Schiller award in March, demanded legislation to secure a cost-of-living wage; Yorkshire insisted that, whatever the consequences, the Government must implement its pledge to restore the 7-hour day. The Government cut the knot by rushing through legislation, which had the reluctant consent of all parties, to continue the $7\frac{1}{2}$ -hour day at current wage rates for twelve months. The Act was recognised to be a makeshift which settles nothing. If things go badly it merely sets the stage for a new crisis, with all its hampering effects on export trade, next July. But there are grounds for hoping that for once the industry may be able to avert a crisis by its own efforts. The Convention adopted by the International Labour Conference in June lays down a $7\frac{1}{4}$ -hour day (British reckoning, or $7\frac{3}{4}$ hours, Continental reckoning), and the British miners are prepared to wait until it can be brought into force by the principal coal-producing countries; the political demand for the 7-hour day is dead. Then there is a notable advance towards conciliation on the part of the leaders of the Miners' Federation, of which encouraging evidence was given by the speeches of Mr. E. Edwards, the new president, and Mr. A. J. Cook, the secretary, at the Blackpool conference in July. A third point of importance is that hours are now, for the first time since the stoppage of 1926, the same in all districts. The adjustment was made at the cost of some loss of wages where the "spreadover" was abandoned, but the path is smoothed for future negotiations.

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Of the larger movements for wage reduction, that in the engineering industry followed an uneasy course until, faced by a virtual ultimatum, the unions accepted modified terms. The new agreement, which operates from July 6, reduces piece rates by $6\frac{1}{2}$ per cent., reduces overtime and nightshift rates, and adds to the employer's incentive to work a shift system. The proposals of the shipbuilding employers were devised with some ingenuity to obtain greater uniformity of rates among time workers and to scale down piece rates and lessen the long-existing disparity between time rate and piece work earnings. The unions rejected the proposals but reconsidered them under threat of their enforcement. The industry is in a desperate state. The orders received by British yards in the first six months of 1931 were the least ever known, both in numbers and tonnage.

At the time of writing, negotiations about dockers' wages continue, and it is doubtful how far Mr. Bevin is prepared to carry his view that resistance to wage reductions is the workers' means of bringing pressure to bear on monetary policy. In this, as in other industries, heroic courses are hardly, perhaps, to be looked for. In general the events of the last few months have reflected the strength of collective bargaining, but the Yorkshire woollen and worsted industry forms an exception. The operatives' refusal last year of Lord Macmillan's award of reductions of about 9 per cent. led to the collapse of the Joint Industrial Council and of general agreements. A large section of the employers has now imposed a further reduction of 11·7 per cent. The unions found only slight support for a proposal to strike, and have fallen back on the demand that the Minister of Labour shall set up a trade board. This raises an interesting point, for although the wages of some operatives may now be below trade board rates, they may still, in terms of the cost of living, be above those of 1914. But, wages apart, it is to be noted that the industry has made no progress towards the rationalisation that it appears to need.

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The cotton industry, on the other hand, is moving slowly, but not altogether unhopefully, towards important measures of internal reorganisation. The weavers' opposition to the "more looms" system—under which the operative runs more looms than the customary four—has become greatly modified in the six months that have passed since the lock-out.* They were able to prevent the general adoption of the system; they were not able to prevent its operation here and there by non-union labour. Now, in sheer self-defence, the unions are being compelled to recognise that if they do not make their peace with the system, the unemployed operatives will work it in spite of them. But educational influences have also been potent. The operatives' leaders who visited the Far East and saw the ruins of Lancashire's great trade have brought home the truth that there are worse things than a disturbance of tradition and habit. Meanwhile, the sectional organisations of the industry, acting through the Joint Committee of Cotton Trade Organisations, have agreed in principle on a scheme for the reduction of capacity by the scrapping of surplus plant. This will require statutory sanction for the raising of a compulsory levy to be used for the extinction or sterilisation of redundant machinery in all sections of the trade. Should the scheme go through—on that it is too early to speculate—it should help to strengthen the other efforts at reorganisation which are necessary if costs are to be reduced and markets regained. The regulated contraction of the industry to a more economical size is put forward as the first step in a common effort, which includes the creation of more large-scale units, better organisation of distribution, co-operation in the revision of wages lists and trade customs, improvement of technique and efficiency through the application of scientific method, better statistics, propaganda and so on. Whatever else may be said, the cotton industry does not suffer from lack of good intentions.

* THE ROUND TABLE, No. 82, March 1931, pp. 392-396.

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There has been a further acquisition of eight shipyards on the north-east coast, which are to be scrapped under the shipbuilders' scheme for the reduction of capacity. The Coal Mines Reorganisation Commission has completed its preliminary survey of the coalfields and strongly advocates the concentration of production by means of large-scale amalgamations. It suggests that amalgamations of entire districts should be aimed at, although the first tasks that it sets the coalowners are more modest. A strong criticism is made of the effects of the quota system (set up under the Act of 1930) in maintaining weak pits in production. The reception of the report has been mixed; the Secretary for Mines has expressed misgivings about the social consequences of shutting down mines, and the familiar objections to amalgamations on the part of some coalowners have been revived.

It is, however, suggestive that in these three industries the weight of opinion lies in favour of radical surgical operations to reduce them to a scale consonant with their lessened importance in international trade. In each there is the idea of conscious planning on a large scale. The same thought runs through the reorganisation proposals of the trade unions in the iron and steel industry; it is implied in the Macmillan Report; and it is to be developed by the Trades Union Congress in September. The items on the credit side of our economic balance sheet are slender, but this trend of thought can certainly be put among them.

IRELAND : EVENTS IN THE FREE STATE

I. POLITICAL

A SUPERFICIAL observer of the present political situation in the Free State might be pardoned for believing that events were pursuing a normal course and that complete stability had been reached. Such a conclusion would not, however, be entirely accurate. It is true that Mr. Cosgrave's Government has now been in office for nearly nine years, and that during this period it has established law and order, immensely improved our economic condition, completed land purchase, developed our agricultural industry and our natural resources, and placed our national finances upon a firm and stable basis. Recent events, however, prove that the old demon of political unrest is still alive and that there are still disgruntled elements who would revive the rule of the gun if opportunity offered. It is notorious that in some parts of the country there has lately been a renewal of drilling, a reorganisation of the so-called Irish Republican Army, and that arms have been imported along our south-west coast. Quite recently two students were fired on and wounded in the Dublin mountains, and, as a result, an armed post of the detective force was established at Killakea House above Rathfarnham. Whilst searching the vicinity they discovered a carefully concealed cave containing many hundreds of rifles, two Lewis guns, thousands of

rounds of ammunition, automatic pistols, fuses, detonators, and military literature. *An Poblacht*, the extremist weekly, boasts that this is only one of a hundred similar dumps scattered over the country. Nor are these manifestations confined to hidden munitions of war and secret conspiracy. The annual commemoration ceremonies at the grave of Wolfe Tone have furnished occasion for a display of a more public nature. This Protestant leader of the United Irishmen, although an anti-clerical freethinker inspired by the French Revolution, has during recent years become the patron saint of our extreme nationalists. Since the Treaty of 1921 the Government has commemorated his death by a military march past the graveyard in Bodinstown, County Kildare, where he is buried, and Mr. de Valera's party by a political meeting held at a different hour in the same place on the same day. The remarkable feature of this year's demonstration was that Mr. de Valera's followers apparently arranged to hold a joint procession with the more extreme Republican Army. Military orders were published in the papers, special trains were arranged to convey the various commandos from different parts of the country at reduced fares, and a march past worthy of the occasion would no doubt have taken place. Unfortunately for this well-planned scheme, the Government, late on the previous night, ordered the railway company to cancel the special trains, and the demonstration, thereby reduced to attenuated proportions, was prohibited by the Civic Guard from indulging in military evolutions. The organisers have since been prosecuted and returned for trial under the Treason Felony Act. One would have thought that Mr. de Valera had already suffered sufficiently from association with military conspiracies over which he has no control, but, like the Bourbons, he apparently learns nothing and forgets nothing. His action on this occasion illustrates only too well his fatal weakness in dealing with the threats of armed men no matter how small or impossible the element they represent.

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The demonstration at Bodenstown was of course also useful as a side-show in the Kildare by-election, which has just taken place owing to the death of one of the Labour deputies representing that constituency, and resulted in the election of Mr. Harris, the Fianna Fail candidate, by a majority of 509 votes over Mr. Conlon, the Government nominee, the Labour candidate being a bad third. Kildare is one of the few eastern constituencies in which Mr. de Valera's party have a firm hold, and in the two last general elections the Republican candidates were at the top of the poll. The result was therefore expected, as the Government candidate was attacking a definitely hostile position, and Irish voters do not quickly change their opinions. Moreover the prevalent agricultural depression, the partial nature of the Government's de-rating scheme, the removal of the large English garrison from the Curragh and the existing dispute between the beet-growing farmers and the Carlow sugar factory, both of which seriously affect the district, all handicapped the Government candidate. By-elections in a relatively poor country like Ireland are really a serious waste of time, energy and money, and Mr. Cosgrave suggested at an early stage in the life of the present Dail that casual vacancies might be filled by allowing the party to which the outgoing member belonged to nominate a successor without opposition, but the other parties would not agree to this course. A possible solution of the difficulty would be to fill casual vacancies between general elections in accordance with the Tasmanian practice. In Tasmania the ballot papers are preserved, and, in the event of a vacancy, the vacating member's quota of ballot papers is re-examined and the candidate who polls a majority of the next choices thereon is elected to fill the vacancy. This system has now been in operation for some years, and seems to give complete satisfaction.

Another occurrence which indicates the condition of the country is the fact that the Government has found it necessary to re-enact for another two years the Jurors

Protection Act of 1929,* which in the ordinary course of events would have expired in September next. The necessity for this Act arose from the fact that jurymen had been intimidated, and that one jurymen had actually been fired at in an attempt to murder him. There is little doubt that the revival of violent methods is designed rather to intimidate voters at the next general election than to promote armed rebellion. If the voters had sufficient pluck such threats might easily have the opposite effect to that intended, but unfortunately moral courage is not one of our national virtues.

It is understood that the Government also intend to introduce a Bill which will give the police larger powers of dealing with conspiracy against the State, and this is sure to be strongly opposed by the Fianna Fail party. There are of course many other things which will operate against the Government when the election takes place. For instance, under English rule the income tax code in Ireland was administered in an extremely lax and generous manner, and evasion was an easy matter. Since the Treaty the Irish income tax officials, with a more extensive knowledge of our national characteristics, have left no stone unturned to make the taxpayer pay up, often to the extent of compelling repayment of arrears which our present Government, in its pre-treaty existence, had ordered him not to pay. Nor has open and honest confession of past misdeeds always led to speedy absolution. It is even rumoured that a leading member of the Government had to pay the arrears of income tax due from a distinguished member of the Catholic hierarchy upon whom the revenue bailiffs were about to descend. This procedure, whilst no doubt entirely legal, has led to considerable bitterness and inspired many voters of neutral views with a dislike of the Government sufficiently strong to destroy their sense of values. They may no doubt have time to repent at leisure if they

* See THE ROUND TABLE, No. 76, September 1929, p. 823.

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have to suffer the numerous imposts which will be necessary to finance Mr. de Valera's policy.

Another source of irritation has been the administration of the old age pensions scheme, which is now enforced according to the strict letter of the law. No longer can aged farmers, as in the old days, assign their farms to their sons, and thereafter enjoy the old age pension. Having regard to the slender majority that the Government now commands, and the undoubted fact that Irish voters do not easily change their opinions or parties, it is almost certain that the result of the next general election—which is not likely to take place before its allotted time in September 1932—will depend on whether these official activities have alienated a sufficient number of voters to wipe out the present Government majority. It is a question very difficult to answer at present.

Another serious cause of annoyance is the activities of the Local Appointments Commission,* and of the Minister for Local Government, General Richard Mulcahy. This Commission, which is an impartial and efficient central body, has virtually, except in cases of promotion, complete control over local government appointments, and has discharged its duties admirably. Its creation was one of the Government's best and most courageous acts, but its methods clash with one of the oldest Irish institutions—the clan system—by which appointments of this nature in the past went to the candidate with the greatest local influence, often entirely regardless of his merits. The new system, under which a clever son of a Donegal labourer may easily be appointed a dispensary doctor in the County Cork if he is the best qualified candidate for the position, has effected something approaching a social revolution—a revolution which will, if it is not upset, eventually give us a first class local government civil service. The most recent disturbance it has caused is due to the appointment

* See THE ROUND TABLE, No. 64, September 1926, p. 820; No. 69, December 1927, p. 152; and No. 72, September 1928, p. 821.

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of Miss Dunbar-Harrison,* a Trinity College graduate, as librarian in County Mayo, an appointment which led to the dissolution of the Mayo County Council. The latest repercussion of this event has been the moving of a vote of censure on the Government in the Dail, and the fact that this motion was moved by Mr. Davis, T.D., the chairman of the Cumann na nGaedheal, or Government party, who is also chairman of the dissolved Mayo County Council, indicates the strength of the forces arrayed against the Government on this question. The vote was moved on the second stage of a Local Government Bill designed to validate the result of certain actions taken by the Minister when the Dublin Borough Council was dissolved in 1929, and, although it was defeated by a majority of eleven, it gave the opponents of the Government policy an excellent opportunity of making a protest. It transpired during the debate that, owing to the political and religious boycott of the library service in Mayo since Miss Dunbar-Harrison's appointment, four centres are in operation as compared with 112 last December. Mr. de Valera stated that the policy of his party was that the Catholic majority was entitled to have Catholic librarians and Catholic doctors, and that this was a fundamental teaching and a fundamental matter for Catholics. There is no reason why this doctrine should not be extended to cover all other occupations, and as regards public appointments it might be more honest to state openly that no Protestant need apply. No charitable or honest Catholic can subscribe to such an unchristian doctrine, nor will any responsible Catholic authority proclaim it as fundamental. It is regrettable that Mr. de Valera, who is at least acquainted with the tolerant traditions of Irish nationalism, should seek to catch votes by playing to the gallery in this way. The whole Mayo agitation is inspired by purely local interests, and it is noticeable that the Irish Catholic hierarchy has taken no action in support of the local bishop and clergy, who have

* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*

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been most vociferous in the matter. General Mulcahy, when replying for the Government, pointed out that it was strange that a Protestant librarian was a danger to the faith in Mayo and not in other counties where similar appointments have apparently given complete satisfaction, and that he intended to administer the law without fear or favour.

The Town Tenants Bill* is still under consideration by the Dail, and its provisions seem to be disliked by both tenants and landlords, which may be an indication that it is both just and reasonable. Senator Sir John Keane, who is the town landlords' spokesman, speaking at their annual meeting, denounced the measure as taking away from free men the right to act as they wished in open contract regarding their property, bringing the fixing of rents and contracts within the purview of the courts, and so destroying that flexibility in relation to property dealings which, he believed, was the essence of all progress. No doubt he will have more to say when the Bill reaches the Senate.

The status of the Free State still continues to exercise the minds of our politicians. Speaking recently in Dublin, Mr. McGilligan, Minister for External Affairs, pointed out that our task was two-fold—to cultivate good relations, in the first place with the members of the Commonwealth, and in the second place with the principal States of the world. Our past history and our urgent national needs necessitated the early adjustment of our relations with Great Britain and the other States of the British Commonwealth. We could not, and we never should, be satisfied with any form of subordination to an external authority. Co-equality was our aim, and he thought that we could say with truth that co-equality has been our achievement. The treaty with Great Britain achieved one great object, the right to develop and evolve on constitutional lines, until every shadow and trace of external rule had been

See THE ROUND TABLE, No. 83, June 1931, p. 620.

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eliminated. Every evil died hard, and there were still those in obscure places who desired to perpetuate the old discords and to retain—for sinister purposes—some elements of the old control. Such people had no care for the interests of this country, nor for those of Great Britain. Every element of continuing control became a festering sore, and the people of these two countries had every right to regard as enemies those who were blind enough to advocate the continuance of any institution whose authority was derived from sources external to the Irish people. This obvious reference to the question of the right of appeal to the Judicial Committee of the Privy Council was emphasised more bluntly by Mr. Cosgrave when speaking at the annual convention of the Government party on May 5. We had, he said, made it clear that the growth of friendly relations between us and Great Britain depended upon the complete elimination, in form as well as in substance, of any appearance of inequality. The process of eliminating these difficulties had been going on steadily since 1922. It had not been without difficulty. The main question still outstanding between us and Great Britain was the Judicial Committee of the Privy Council. Appeals to that body from our Supreme Court were an anomaly and an anachronism. Their continuance was incompatible with our status and an insult to our dignity and our sense of fair play. In the interests of both countries, and of their better friendship, this appeal must disappear, and soon.

Mr. de Valera's latest excursion into foreign affairs has been an abortive and ingenuous question in the Dail as to whether, in view of the likelihood of President Hoover's proposal for a moratorium in connection with international payments being accepted, the Government is taking steps to see that proper representations are made to secure that the land annuities and other sums totalling over £5 million, sent by us annually to England, are included in the category of payments to which the moratorium will apply.

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With his usual unconscious humour he added the saving clause : "without prejudice to our conviction that these payments are not justly due." What the payment of land annuities, most of which are due since 1903, has to do with war debts no one but a person of Mr. de Valera's mentality can conceive. It is pleasant, however, to record that the Dail was for once unanimous in approving the adhesion of the Free State to the General Act for the Pacific Settlement of International Disputes, which Mr. McGilligan brought before that assembly on June 26. He was even able to satisfy the Fianna Fail party that the delay in doing so was not due to any occult trickery for the purpose of securing the support of Great Britain and the other Dominions for the election of the Free State to the Council of the League.

During June a Treaty of Commerce and Navigation was signed in Dublin between France and the Free State. On this occasion Mr. McGilligan emphasised the fact that France was our oldest friend among the nations and that French soldiers shed their blood here fighting with us against England, who was then our common enemy and has since become our common friend. Many thousands of Irish soldiers had also fought and died in the armies of France on the continent. This treaty was a further step towards renewed co-operation and friendship in a new and better sphere of action. He also paid a warm tribute to M. Alphand, the French Minister in Dublin, who in a short time has become one of the most popular members of the new diplomatic corps. The treaty gives certain concessions to French products, principally wine, in return for similar concessions to us, one of which will facilitate the export of Ford tractors from Cork. To counter-balance these manifestations of affection for France, Mr. McGilligan, after the meeting of the League Council at Geneva, also paid a visit to Berlin, where he received a warm welcome. All these interchanges of international courtesies are excellent. They help both to establish our

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self-respect and to bring us once more into direct touch with European affairs.

A recent article in *An tOglac*, the Irish army quarterly, which is obviously written by a member of the Government, probably Mr. Blythe, Minister for Finance, discusses the problem of our external defence in a clear and interesting manner, and has been referred to in the Dail debates on the estimates. The writer believes that we shall be faced with a war situation here only if and when Great Britain is engaged in a conflict with a European State or States. He points out that Great Britain will not willingly participate in any future European struggle, unless her most vital interests are endangered, that the piratical phase of British history is at an end, and that trouble will not be brought upon us by British aggression, but that if we had no adequate defence force a very serious situation would arise should Great Britain fail to hold the effective command of the seas. We cannot afford to maintain a standing army of adequate size, but the writer believes that a mixed militia and territorial force can be provided cheaply enough to enable us, in the event of war, to mobilise a very considerable force trained to undertake effectively the duties of home defence. In no circumstances should we prepare a force for use outside the country. This article indicates that the military policy of our present Government, which is clearly dictated both by political expediency and financial necessity, is one of defence not defiance. At the present time the standing army of the Free State numbers only about 5,300 men with 500 officers. There are in addition about 4,000 men in the A reserve, 3,600 men in the B reserve, and about 900 men in the newly formed volunteer reserve. The whole form of the army has been completely changed during the last three years, and the Minister for Defence, Mr. Desmond Fitzgerald, has recently stated in the Dail that he does not intend to bring in a permanent army Bill until the ultimate form of the army is settled. It is pleasant to record that this year, for the first time,

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cadets from Trinity College and the National University marched shoulder to shoulder in the St. Patrick's day parade through the streets of Dublin—a fine symbol of the new Ireland. The controversy about what national anthem should be played when the Governor-General attends the Trinity College sports* has also been happily settled by the playing of the "Soldiers' Song" when he arrives and "God Save the King" after he departs. Ireland being what it is, this will probably need the employment of different bands to do justice to the respective tunes; but if political harmony is established by this expedient it is no doubt worth the price.

The Dail has now adjourned until October. A recent return shows that its activities during 1930 comprised 59 days' work, the passage of 35 Acts, and the putting of 826 questions, which, everything considered, is quite a creditable record.

II. ECONOMIC AND GENERAL

THE revenue returns for the first quarter of the present financial year clearly show that the Free State is beginning to feel the effect of the world-wide economic depression. They disclose a deficit of £1,212,618—revenue having fallen by £734,282, and expenditure increased by £379,293. The trade returns to the end of April also show a big fall in both exports and imports. The detailed revenue figures disclose a fall of approximately 40 per cent. in income tax, and 50 per cent. in excise. In spite of, or perhaps because of, our tariffs the customs revenue has substantially increased. Our exports for the current quarter will be much reduced by the restriction on the export of cattle, due to an outbreak of foot and mouth disease in County Down in Northern Ireland. All movement of cattle from Northern Ireland into the Free State

* See THE ROUND TABLE, No. 76, September 1929, p. 828.

Economic and General

had to be prohibited, and it is calculated that the resulting financial loss to all concerned will be well over half a million pounds. Fortunately there are now abattoirs at Cork and Waterford where animals can be killed, and it is also not so costly to hold over stock at this time of year when there is plenty of grass. Because of malicious rumours to the contrary, it is well to emphasise the fact that no foot and mouth disease exists at present in the Free State.

For the first time since the terrible famine year of 1847 the population of the Free State area shows a tendency to increase. The estimated figures for 1930 show an increase of 6,000. This result is undoubtedly due to the considerable reduction of emigration to the United States of America. Intending emigrants under the existing regulations are required to carry a substantial sum of money so that they will not have to join the unemployed on their arrival in America, and this has acted as an effective barrier. It is interesting to note that this restriction of emigration, which naturally increases the number of idle young men in the Free State, has, as already mentioned, coincided with a revival of illegal conspiracy and illicit drilling. In the past a similar cause has had similar results. The population figures also show that the Free State is one of the few countries where the male population substantially exceeds the female. The excess is estimated at 72,000 in a total population of 2,950,000.

The reorganisation of our dairy industry is not yet complete, and has received a rather serious set-back through the dissolution of the Irish Associated Creameries Company, which was formed for the purpose of combined marketing operations on behalf of the co-operative creameries. There is, however, a movement towards consolidation among these creameries, and if and when Mr. Hogan, Minister for Agriculture, can purchase the few remaining proprietary creameries a further effort no doubt will be made to deal collectively with the large buyers, and thus maintain a stable and uniform export price. The importance of this

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industry is shown by the fact that there were over 1,200,000 milch cows in the Free State on June 1, 1930. Over half of these are found in the province of Munster, a district equal in population and area to only one-third of the whole State. Of the milk obtained from these cows three-fourths is converted into butter, valued at over £12,000,000 per annum. About one-third of the butter produced is exported to Great Britain, in which market the Free State supplies 9 per cent. of the total supply. It may be added that the Free State stands fifth amongst the butter producing countries of the world. More than half of the butter produced is made by farmers. Some of it is sold to a few butter factory merchants around Cork, who blend and then sell it as factory butter. The remainder is made by some 300 creameries, whose employees number 3,500, and whose annual wage bill is about £400,000. Fresh cream and condensed milk are also exported, but the output of cheese is insignificant, because the by-product of cheese is not suitable for calf raising, whereas 85 per cent. of the milk used in the manufacture of butter is returned directly to the farmers for use as calf food, thus assisting the greatest single business of the country—cattle exporting.

Another important business, the Hospitals Sweepstake,* continues its triumphant progress, in spite of all external opposition. The prize fund, which was £400,000 in the first sweep, rose to over a million for the Grand National, and two millions for the Derby. Five millions is talked of for the next sweep on the November Handicap. The hospitals have already benefited to the extent of over a million and a quarter pounds, and future gains are to be shared in by the country public health hospitals, which are supported by the rates. There is of course another side to the story, as there is little doubt that the withdrawal of even the Free State's share of this great sum of money from business circulation has injuriously affected general

* See THE ROUND TABLE, No. 80, September 1930, p. 835; No. 82, March 1931, p. 412; and No. 83, June 1931, p. 633.

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trade, and that the large individual prizes awarded have stimulated gambling and dishonesty among the poorer classes. Moreover an attempt was made to initiate a rival and illegal sweepstake, alleged to be in aid of the Gaeltacht or Irish-speaking districts, which was promptly terminated by a Government prosecution. The motives of its promoters may not have been entirely altruistic.

A considerable amount of electricity, not altogether of a positive kind, has been generated by the recent disclosures concerning the financial management of the Electricity Supply Board* which controls the Shannon power plant and the national supply of electricity. It has been obvious for some time that things were not going smoothly, and the resignation of the chairman, Mr. J. J. Murphy, formerly Town Clerk of Dublin, and of Dr. T. A. MacLaughlin, the managing director, led to much speculation. Mr. McGilligan, Minister for Industry and Commerce, when introducing an amending Electricity Supply Bill in the Dail on July 8, explained what had taken place. The Board, as originally set up, was independent of the Government, but subject to removal. It was bound to publicity, especially in regard to its finances, and to produce certain specified accounts, reports and returns. It was obliged to take over all undischarged liabilities of existing statutory undertakings, and to set aside a sum equal to the fair value, as assessed, of the privately owned authorised undertakings. It had no borrowing powers, and its initial capital expenditure was limited to a sum of £2,500,000 voted by the Dail. All other expenses, sinking fund, renewals, depreciation and so forth, were to be met out of revenue. The Board, according to Mr. McGilligan, has overspent this loan by £600,000, and has committed itself to further expenditure amounting to £250,000. Repeated attempts to obtain information as to the Board's finances had failed, and Mr. McGilligan

* See THE ROUND TABLE, No. 67, June 1927, p. 590; and No. 69, December 1927, p. 153.

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stated that if all the members of the Board had resigned he would have accepted their resignations. If the chairman had not resigned he would have asked for his dismissal. The Government cannot be considered blameless in the matter, because after all the Board was composed of its nominees. It is unfortunately another case of sending a boy on a man's errand. Few business men in Ireland have the experience or capacity to deal with a concern of this kind, and those who were nominated to do so were apparently quite unequal to the task. It would have been far better if the Government had employed the best outside expert assistance available, at least during the early stages of the scheme, and placed it in complete control of administration. Unless this course is now taken and a full inquiry held into the causes of the present situation, our last condition may easily be worse than our first. The Bill now introduced provides for a further advance of £2,000,000 to be paid to the Board at the Minister's discretion. The one bright spot, for which they deserve great credit, is the fact that Mr. de Valera and his party, in criticising the situation, have never lost sight of the fact that the Shannon scheme is a great national undertaking and have avoided the natural temptation to make party capital out of the affair.

The Irish Free State.

August 1931.

CANADA

I. PARLIAMENT AND THE DEPRESSION

THE first regular session of the present Federal Parliament of Canada opened abnormally late, on March 12, and as a consequence the prorogation, which in recent years has usually occurred before the end of June, may not be possible now before the last week of July.* The crop of legislation was not by itself large enough to justify a four months' session, since the only measure of major importance was the Bill for the establishment of a new tariff board. But the economic problems in which the Dominion is involved provided ample material for discussion, and from the start of the session the Liberals, who had a band of indefatigable guerrilla warriors on their back benches, manifested a disposition to bait and harass the Ministry. Even the humid midsummer heat of the Ottawa valley, which in the past has been a notable accelerator of public business, failed to damp the Opposition's ardour for contentious argument, persistent interrogation and skilful obstruction of estimates; the name of Rivière du Loup is graven on ministerial hearts, for Mr. Jean François Pouliot, Liberal member for Temiscouata, aggrieved that a station voted for that town had never been built, addressed 200 questions to ministers on the subject and in addition secured 75 orders for documents concerning it. At

* The Canadian Parliament was prorogued on August 3.—Ed.

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intervals the Liberals received assistance from the Progressives, Labourites and Independents, but the Progressives evinced a continuous anxiety to demonstrate their untainted independence and a number of them voted with the Government on different issues. At times when nerves became frayed in the uncomfortable sultriness of the Commons Chamber there were some bitter exchanges, and the management of the House proved no easy task for Mr. George Black, the new Speaker. Mr. Bennett continued to carry on his own shoulders the main burden and heat of debate to an extent which no previous premier has ever attempted, and by the end of the session the effects of the strain which he imposed upon himself were plainly visible. They prevented the manifestation of the serene and conciliatory temper which would have facilitated the smooth transaction of business, and to a considerable degree nullified the advantage which the Premier's experienced mastery of so many problems and resourceful versatility in debate conferred upon the Ministry. Naturally Mr. Bennett's monopolisation of the conduct of parliamentary business provoked from the Opposition benches recurring taunts that he was constituting himself a dictator and treating his colleagues as helpless nonentities who could not be safely trusted with the exposition of problems connected with their own departments, but these gibes left Mr. Bennett completely unmoved. However, Mr. Gordon, the Minister of Immigration, and Mr. Weir, the Minister of Agriculture, have justified their speedy promotion to Cabinet rank immediately after their first election to Parliament, and on the Conservative back benches two Quebec lawyers, Mr. John Hackett of Montreal and Mr. Onesiphore Gagnon of Quebec, have shewn promise of real parliamentary gifts. On the Liberal side Mr. Mackenzie King, Mr. Lapointe and Colonel Ralston provided the heavy artillery and the last has by a series of excellent speeches materially increased his prestige as a debater of the first rank. Captain Ian Mackenzie and Mr. Hanbury

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of Vancouver, two new recruits, and Mr. Ilsley of Nova Scotia, who sat in the last House, have also given evidence that they possess sound parliamentary talents. The Progressive group are now all political veterans, and as usual they spent a good deal of time expounding their pet panaceas, such as currency inflation, for the country's troubles, while the Labourites assiduously kept the unemployment issue in the foreground. Mr. Bourassa continued to enjoy himself immensely in the rôle of the candid friend and critic of both major parties, and during the session he developed what was for him a new vein of advanced radicalism, directing bitter criticisms against the existing social and economic order and pleading the cause of the classes who were suffering from its flaws and disabilities.

The real climacteric of the session was the budget, the submission of which was delayed for a variety of reasons until June 1. Mr. Bennett is still acting as his own Minister of Finance, although he has now announced his intention of finding an occupant for the Treasury as soon as possible, and it is to his credit that in his budget speech he gave the Canadian people the most thorough and comprehensive statement of their financial position that has been offered them for many years. He estimated the total revenues for the fiscal year 1930-31 at \$356,215,000 as compared with \$446,182,000 in the previous year, and, expenditure having been \$440,060,657 as compared with \$398,442,247, he showed a deficit of roughly 84 million dollars. He stated that the national debt on March 31, 1931, was \$2,610,788,917 from which active assets valued at \$349,180,601 had to be deducted, leaving the net national debt at \$2,261,608,316, but he pointed out that account must also be taken of indirect obligations aggregating \$1,269,000,000, for all of which except some 31 million dollars the Canadian National Railway account was responsible. He indulged in a somewhat pessimistic and decidedly critical view of the financial situation of the

Canadian National Railway, and adduced statistics to show that since it had become a unified system in 1923 its aggregate losses had reached the ominous total of 346 million dollars. While he admitted that of this sum 253 millions was a book debit, on account of unpaid interest on cash advances aggregating \$604,000,000 which had been made by the Federal Treasury, he drew attention to what he regarded as the most serious feature of the position, that the revenues in eight years had fallen short by \$86,000,000 of operating expenses and fixed charges due to the public; he also said that he found another disturbing aspect in the fact that despite an increase since 1923 of \$400,000,000 in the capital investment in the railway, the gross earnings in 1930 were actually less than in 1923. He directed severe criticisms against the King Government for permitting the president and directors of the Canadian National Railway to spend money without any serious check, and he declared that, while his criticisms must not be construed as indicating hostility to the State-owned system, he desired to impress the country with the seriousness of the problems involved in what are now admittedly the embarrassed fortunes of the Canadian National system.

For the current fiscal year Mr. Bennett estimated that the revenues on the basis of existing taxation would yield only \$325,000,000, and as the estimates had called for \$430,000,000 a gap of \$105,000,000 had to be bridged. Of this sum, he proposed to raise \$20,000,000 by borrowing for capital expenditures and about \$78,000,000 by fresh taxation. He claimed that this would leave a prospective deficit for the current year of approximately \$7,000,000, which might disappear if trade improved and revenues increased. However, all his calculations seem now to have been upset by the calamity that has befallen western Canada owing to the ravages of drought in the wheat fields.

For raising new revenue Mr. Bennett proposed a variety of additional taxes. He increased the general rate of the sales tax from 1 per cent. to 4 per cent. and in addition

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added a special excise sales tax on all imported goods, which will have to be 5 per cent.; in his original proposals he also abolished most of the exemptions from the sales tax, but later, under pressure from business interests, restored practically every one of them. He further increased the corporation tax from 8 per cent. to 10 per cent. and restored the three-cent postage rate by an increase of one cent on all existing rates, and made some other minor changes calculated to produce more revenue.

It was, however, the tariff proposals of the budget which were awaited with the keenest interest, and although Mr. Bennett expressed his regret that he had found it impossible to undertake the general revision of the tariff that he had planned, the changes proposed covered approximately 200 items of the customs tariff and meant taking a second long step towards rounding off the "Canada First" policy of higher protection. It is estimated that they will affect some 200 million dollars worth of import trade, and as a similar volume was affected by the tariff revision of the emergency session, at least half of Canada's total imports are now experiencing the full impact of the "Canada First" policy. The changes hit practically every country which trades with Canada, but the United States will be the chief victim and cannot fail to suffer another serious curtailment of its exports to Canada. If, for instance, the plans embodied in the budget for the stimulation of what is called a "national fuel policy" are successful, a substantial volume of business should be diverted from American to British and Canadian mining interests. For the first time in history American anthracite coal is subjected to a levy of 40 cents per ton, while British anthracite is left upon the free list. The duty on American bituminous coal is also raised from 50 to 75 cents per ton and on coke to \$1 per ton. There are also provisions for generous freight rate subventions devised to give the mines of the maritime provinces more favourable access to the market of Ontario and to confer a similar advantage upon the mines of Alberta.

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and British Columbia in the prairie market. There are also important changes in the motor schedules, intended to transform Canadian motor factories—many of which have been merely assembling plants—into complete manufacturers of cars; the entry of used motor vehicles is completely banned. In the iron and steel schedules, which were left untouched at the emergency session, there is a series of increases and adjustments chiefly for the benefit of the domestic industry. Despite the assurances given in the Speech from the Throne that the changes in the British preference would only be in the nature of incidental adjustments, increased duties on iron and steel products, leather goods, pickles, furniture and some other commodities are calculated to diminish British exports of these products to Canada, although there should be a gain in coal exports. For purely revenue purposes a duty on tea, which the Liberals had wiped out, has been reimposed and there are additional imposts upon certain fruits and vegetables. One interesting innovation of the budget is a heavy tax upon American magazines and periodicals entering Canada, and another is a provision for a freight rate subsidy of five cents per bushel on all wheat exported, for the purpose of helping the prairie farmer. Critics of this proposal, who include the Canadian millers, contend that, if the subvention is paid to transportation interests, it will operate mainly to the benefit of European importers, and the western press is urging that, if the bonus is intended to assist the producer, it should be paid direct to him.

Apart from the actual alterations in the customs schedules, the budget aims at a general tightening of the protectionist system. The Customs Act has long contained a section which empowered the Government to impose a surtax upon the goods of any country which failed to give Canada equitable tariff treatment, but it was low and has rarely been imposed; now, however, the budget provides that the rate of this surtax shall be fixed at $33\frac{1}{3}$ per cent., which will constitute a virtual embargo.

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Power is also taken by order-in-council to withdraw the privileges of the British preference from any country which is deemed to have forfeited them by its fiscal policy towards Canada. Again, only a small duty has been hitherto levied upon articles not specifically enumerated in the customs tariff, but it has now been fixed at the flat rate of 25 per cent. which means that all new inventions, new articles, new fruits, etc., will have to pay this rate. For the protection of the consumer, more effective measures are devised to prevent manufacturers from exploiting the tariff by increasing their prices. An amendment passed at the emergency session empowered the Government to withdraw their protection from manufacturers who raised their prices, but it was found ineffective and now the Government is taking to itself power to levy upon any manufacturer who raises his prices an excise tax equivalent to the tariff upon his products.

The budget was subjected to very severe criticism by the Liberals and other Opposition groups, but their chief attack was directed against the tariff increases. Mr. Mackenzie King gave a lead which was generally followed in arguing that high protection was completely unsuited to the special circumstances of Canada, and that the Government's policy, as exemplified by the budget tariff proposals, could not fail to produce disastrous stagnation in Canadian trade. The western members on the Opposition benches inveighed with special ferocity against the tariff changes and maintained that they would not only increase the farmers' cost of production, but would also provoke fiscal reprisals which would accentuate the difficulty of finding profitable markets for Canada's agricultural produce. In reply, Mr. Bennett argued that special tariff measures were required to meet the situation confronting Canada, which he went so far as to describe as the "most serious industrial crisis in her history." He said that if steps were not taken to prevent the dumping in the Canadian market of certain classes of goods of which

other countries had a large surplus, it might mean the complete extinction of Canadian industries engaged in the manufacture of these commodities, and he cited instances of the dumping practices which some of the tariff changes sought to prohibit. He also claimed that the tariff increases of the emergency session had already justified themselves inasmuch as, since they were decreed, 87 new industrial plants had been established in Canada, mostly by American interests. But the Liberals challenged the validity of this claim, alleging that the rate of industrial expansion had been greater in previous years under a Liberal administration. Liberal and Progressive amendments to the budget were easily defeated, and in the end the Government had a comfortable majority of 102-72 on the main motion. During the committee stage, the Opposition continued their criticism of individual items, but could only compel the Government to agree to some minor adjustments.

By far the most controversial measure of the session was the Government's Bill for creating a new type of tariff board as a substitute for the board which the King Ministry had established and which Mr. Bennett immediately after assuming office had abolished, on the ground that it lacked proper statutory authority and had manipulated its inquiries for political ends. The projected new board was modelled on the lines of the tariff commission which was designed in 1912 by Sir Thomas White, but was killed by the Liberal majority in the Senate. Mr. Bennett explained that it would be a non-partisan body with a judicial outlook and fact-finding powers, and that one of its main duties would be to ascertain the relative costs of production in Canada and foreign countries as a basis for tariff making, but that the actual power of finally fixing the rates would remain with the Government. It was provided that the chairman should have a salary of \$15,000, and the other members \$10,000, and that they should hold office for a period of ten years and be eligible

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for re-appointment. The Liberals, who were naturally aggrieved at the elimination of their own board, took strong objection to many features of the Bill, and after unsuccessfully moving on the second reading an amendment for its postponement, they fought it clause by clause in committee. They criticised the powers conferred upon the board to say what was a proper rate of duty, but they directed their chief fire against the provision for a ten-year tenure of office for the members of the board; they contended that, in view of the political implications of the tariff, if the board was to function efficiently it must enjoy the confidence of and be sympathetic to the Government of the day, and that the Bennett Ministry was trying to rivet a high protectionist system indefinitely upon the country. When the Government, which claimed that the experience secured in a long term of office would conduce to the administrative efficiency of the board, would not recede from its position, Mr. Mackenzie King bluntly threatened that if the Liberals came into power they would rid themselves of appointees of the Conservative Government by the simple device of refusing to vote monies for their salaries. The battle on this measure was maintained for several days, but some of the Progressives were disposed to give the new board a fair trial, and the Government was always able to command comfortable majorities to defeat the different amendments that were proposed in committee. It remains, however, to be seen how the measure will fare in the Senate, where the Liberals at full strength still command a majority of one.

On June 30 there was a brief and wholly friendly debate on the resolution seeking the approval of the Canadian Parliament for the proposed "Statute of Westminster." In moving it, Premier Bennett gave a detailed explanation of its provisions, the steps which had led up to them and the reasons for them. Mr. Lapointe for the Liberals cordially supported the resolution, but took the opportunity to claim for the previous Liberal administration credit

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for most of the spade work that had made the passage of the "Statute" possible. He also advocated that Canadian appeals to the Privy Council should be abolished and that steps should be taken for Canada to secure the power to amend her constitution by her own act. Mr. Bourassa supported the resolution and also the bulk of Mr. Lapointe's additional suggestions, and it is evident that, although Premier Taschereau remains unconverted, there has been a notable change of sentiment in Quebec about the desirability of Canada's acquiring full control of her own constitution. Mr. Bennett was non-committal about Privy Council appeals, but he promised to call at some convenient date an inter-provincial conference to discuss ways and means whereby Canada should secure for herself the power of constitutional amendment.

Before the close of the session, Mr. Bennett was able to announce the terms of a new commercial treaty concluded with Australia to replace the old pact made by the King Government. It was the result of protracted negotiations lasting nearly a year, and the result is a comprehensive exchange of mutual preference instead of the very narrow list covered by the former treaty. Canada secures by it the benefit of the British preferential rates on 415 out of the 433 schedules of the Australian tariff and in addition the intermediate rates on six items or parts of items. Furthermore, on lumber, newsprint and canned salmon, which are of great importance to Canada's export trade, Australia has adjusted her tariff in order to give Canadian producers a greater margin of preference. By way of return, Canada accords to Australia either her British preferential tariff rates or greater margins of preference on some 28 items or parts of items; the chief benefits to Australian producers should accrue from the very substantial preference now given on raisins, apricots and other fruits and wines. The terms of the agreement have been enthusiastically received in British Columbia, where a variety of interests will profit by them, but they have

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received a chilly welcome from the grape-growers and wine-makers of the Niagara peninsula, who have protested to the Government that their industry will be adversely affected by the competition of Australian wines. One novel and interesting feature of the treaty is a clause providing that abrogation need not necessarily follow the emergence of difficulties arising out of one or two items. It is agreed that, if one country discovers the importation of some product under the terms of the treaty to be prejudicial to one of its own domestic industries, it can give notice of the fact to the other, and if within three months after receiving the notice the latter country has not removed the difficulty, then automatically the product concerned will bear the general tariff rate applicable to it until the notice is withdrawn.

During the last month of the session, interest on Parliament Hill was centred in the proceedings of a special committee of the Commons which investigated the activities of a company called the Beauharnois Light, Heat and Power Corporation. This company had organised a huge power project east of Montreal which involved the construction of a canal between Lake St. Francis and Lake St. Louis and the diversion of the waters of the St. Lawrence into it; as the river at this point was within the domain of Quebec, a lease of the water powers was secured from the provincial government of Quebec, but a permit for the diversion of water from the main channel of the St. Lawrence had to be secured from the Federal Ministry, which has jurisdiction over navigation rights. After granting this permit, the King Government was subjected a year ago to strong criticism by the Progressive group, who alleged that valuable water powers belonging to the nation had been handed over to private exploiters for a mere song, and that the public interest had been inadequately protected. Then, about the middle of this session, Mr. Gardiner, the Progressive leader, again raised the issue and demanded an investigation of the operations of the corpora-

tion by a parliamentary committee on the ground that the order-in-council which had authorised the permit for diversion of water was illegal, and that the company had violated the terms of its agreement with the Government ; he also made very direct allegations against Senator W. L. McDougald, a prominent Liberal politician who is now president of the Beauharnois Company, and claimed that he had deliberately misled Parliament about his relations with the company. Premier Bennett, who when in opposition a year ago had supported Progressive criticisms of the company, agreed that a parliamentary investigation was desirable in the public interest, and a committee representative of all parties, of which the Hon. Wesley Gordon, Minister of Immigration, was chairman, was forthwith constituted. Eminent counsel were briefed by all the interested parties, and at a series of hearings which have been in progress since June 15, a huge volume of testimony has been submitted by different witnesses. Much of it has been of a technical character, and it has been demonstrated that the corporation has departed from some of the terms of the agreement under which it secured authority for the diversion of water. The committee is to report to Parliament before the end of the present session, and there is a widespread demand that a Royal Commission should be appointed to conduct a thorough judicial inquiry.

From the beginning of June onwards a cloud hung over Parliament in the shape of depressing news about the fortunes of the all-important western wheat crop, and the crop bulletins, which grew more pessimistic each week, were scanned with deepening anxiety. Confirmation of the worst fears came on Dominion Day, July 1, when Mr. Bennett made a very grave statement in the House of Commons and solicited the co-operation of the other parties in coping with the situation, which he described as "probably the most serious national calamity that has ever befallen Canada." He estimated that about 5,000,000 acres of

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what has been regarded as the best wheat-growing section of the prairie provinces had been almost completely devastated by the protracted drought of June and the dust storms and soil-drifting which were its concomitants, and said that, since the provincial and municipal treasuries of this region were bare of funds, the main burden of furnishing relief during the winter to 100,000 farming people would fall upon the shoulders of the Federal Government. He pledged himself that before the end of the session special measures would be introduced for dealing with this situation and with the unemployment problem, which it will aggravate. The *Toronto Globe* estimates that at least \$50,000,000, and possibly \$100,000,000, will be required to meet the demands which will be made upon the Federal Treasury. The Opposition parties promised their cordial co-operation, but Mr. King contended that the work of relief should be entrusted to a non-partisan national relief commission.

Meanwhile it is obvious that the western wheat pools are now *in extremis*, and while it is possible that the Alberta pool may continue to function, plans are afoot for winding up the other two pools in Manitoba and Saskatchewan. The Governments of these provinces will take over their obligations and properties, and for the conservation of the farmers' interests in Saskatchewan, co-operative elevator companies will be organised on the lines of the old Saskatchewan Co-operative Elevator Company, which the provincial pools abolished some years ago. The premiers of the prairie provinces made strong representations to the Bennett Ministry that in view of the collapse of the wheat pools the revival of the government wheat marketing system which was in operation during the later war years was necessary, but the Bennett Government could not see its way to accede to their request, and suggested as an alternative that the three prairie provinces should combine to set up an inter-provincial wheat board.

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II. THE WEST

WESTERN CANADA is at war—fighting against drought and low prices and world-wide economic nationalism. It has even its devastated areas.

The drought—though happily broken in July—was in May and June the most extreme that has been experienced for years; in fact there has probably never been such a drought since any substantial area of land first came under the plough in the western provinces. The high winds which accompanied the dry weather have caused the soil to drift to an unprecedented extent. In many places, particularly in southern Saskatchewan, one can see five-foot fences covered as though with snow, so that the cattle can walk over the top. Where the soil is shallow it has in certain places been blown away right down to the "hard-pan," leaving only pebbles and stones, some of them as large as one's head. This condition was indeed so bad in certain parts of southern Saskatchewan towards the end of June that they looked like the Sahara, and there were often dust storms in which one could not see ten feet ahead. This utter desolation is not, however, very widespread. In a drive of 800 miles in Saskatchewan, taken towards the end of June with the express intention of seeing the worst areas, not more than forty or fifty miles were through absolutely devastated country, and even there the recent rains were beginning to produce signs of green, although in many cases the growth mainly consisted of the ever-ready weed. Further, soil-drifting is to a large extent the result of over-intensive cultivation, and it is a difficulty which has in years gone by been successfully dealt with in the west of the United States, so that it need not be regarded as in any sense an inherent and inescapable handicap to western farming, especially as, except in a few districts, the soil is so deep that the drifting does no permanent injury.

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A visit to a farm in the worst district left one with mixed feelings. We found the farmer puzzled, nonplussed and uncertain what to do. His wheat crop had been ruined and his only hope for the current year was to endeavour to grow fodder for his animals; and he had to consider how he should treat his soil in order to get a binder which would lessen the chance of the drifting starting again. Notwithstanding his plight, however, one felt that his future was by no means hopeless. The locality usually produces good crops and, as a farmer whose crop has been spoilt this year put it: "My average crop for the last twenty years has been 22 bushels an acre. I am all right." Another thing which struck one on this particular farm was that the children were as healthy and well-fed as one could wish. They had sufficient animals to provide for their immediate wants, and one felt that, however sharply the winds of economic distress might blow, these people were free from the two worst ills—unemployment and starvation. Anyhow, the Government will see to it that this farmer gets grain for seed and fodder for his cattle, and with these he can struggle along until the next harvest, which by all the laws of averages, and according to the well-attested cycles of moisture in the west, should be a good one. A year hence, with anything like a reasonable improvement in prices, his position may be vastly different from what it is to-day.

Meanwhile adversity, as usual, is teaching useful lessons. Much has been learnt in the last two years about how to live off the farm. A loan company agent, endeavouring to reckon the cost of growing wheat, took into account an amount for the subsistence of the family. "They are learning," he said, "to live off the farm. There are families near here whose cash outlay in groceries for a whole week would not be \$1.50. All that they buy is tea and sugar." This tells a story which is for the moment serious from the point of view of the merchant and manufacturer, but it certainly brings down the cost of growing wheat. What this

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cost actually is, it seems, however, almost idle to conjecture. In the first place, all calculations based on an assumed yield would be knocked on the head if the yield were to prove higher or lower. In the second place, there is so little agreement about the cost of the different elements which enter into any estimate of wheat growing that completely different figures are given by different authorities who are all presumably competent. This, however, may be said. Dollar wheat, which two years ago would have been regarded as a calamity, would now be looked upon as a bonanza price, and even 75 to 80 cents would to-day be considered to give the farmer a chance. Incidentally it should always be remembered that the price quoted for wheat is the price at the head of the Great Lakes, and that the price to the farmer is that amount less freight and elevator charges, which sometimes run to nearly 20 cents.

One naturally tries to gauge the temper of the western farmer in his present difficulties, and it is necessary to generalise from a few instances. A foreign farmer near Leduc, south of Edmonton, had leased land in addition to his own farm and put in two or three times as much wheat as he did a year ago. When asked the reason for this, the answer was that prices were bad and that in order to earn as much as he did the year before he would have to produce three times the quantity of wheat. This is not mentioned as a typical instance—it is not one—but as an outstanding symptom of a morale which seems on the whole to be keeping high. No doubt, as in the army, morale is the result of a variety of causes, and one of the most important at the present moment is that there is no opportunity of running away to southern California or anywhere else in the United States, as there used to be ten years ago.

A farmer, fifty years old, comes to his banker in the autumn of 1930 saying that his crop has yielded him nothing and that he wants money to carry him over the winter—otherwise he will throw in his hand. The banker points

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out that if he gives up he will have no other way of "improving" himself and urges him to reconsider his decision. The result is that after a family council the farmer comes back and tells the banker that if he is given time by the bank, the family has come to the conclusion that in one way or another—by one of the daughters teaching at school, and by buying milch cows, poultry, etc.—they can maintain themselves. The banker has no doubt that they will win through.

A man from Saskatoon, at a country point nearby, is assailed by a number of farmers in distress. What, they ask, is going to be done for them? He rounds on them, tells them that their troubles are their own fault and that if they had exercised a reasonable amount of prudence in the last ten years instead of squandering their money on motor cars, radios, unnecessary farm machinery, etc., they would be quite able to "paddle their own canoes" at this moment. He tells them of a French-Canadian, from the province of Quebec, and not long in Saskatchewan, who was getting on all right. French-Canadian English is difficult to reproduce, but when the Saskatoon man asked him how he had managed it, he gave the following reply:

Before I became a farmer I was in a factory in the province of Quebec. We once had to go to see the manager and I heard him several times mention "the sinking fund." I did not know what that meant, but when I come to the province of Saskatchewan to be a farmer I say to myself—"Albert, you are now in business on your own. You are now just like a manufacturer. You must have a sinking fund." I go to the priest and I ask him: "Father, what is this sinking fund that the manager in the factory talked about?" The priest, he tells me what is this sinking fund, and I have made me a sinking fund—hay and oats in the barn, horses, cows, pigs and chickens—and my children have three meals a day and wear good clothes.

Albert's sermon apparently struck home, angry and irritated though the farmers were.

The bad prices have, of course, produced a strong

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demand in various quarters for further resort to price-fixing devices. Some of our farmers would like not merely a hair but the whole hide of the dog that bit them. In the present circumstances it is not surprising that men's judgments should be upset by the urgent anxieties of the moment. In this connection it is interesting to note a leading article in the *Manitoba Free Press*, whose editorial policy is in the hands of the able and patriotic Mr. J. W. Daffoe, who has on the whole been a supporter of the aims of the Pool. This leading article says :—

The arguments being advanced in support of the creation of a wheat board, or in favour of some method of federal control of the wheat crop, are merely the most recent expressions of a perfectly consistent theory of grain selling.

Requests for government control of the wheat are supported by the assertions that, failing such control this season, prices will drop to calamity levels with disastrous consequences for the growers and for the country generally. It was on this assertion, stated in slightly different terms, that the wheat pools justified their existence when they were first incorporated ; and on this assertion half the grain trade of Canada has been conducted for some seven years. Despite the failure of the wheat pools to weather the economic storms in which international business is plunged, the soundness of the theory, or belief, on which they were formed continues to be urged. The Federal Government is being requested to step in now that the pools have collapsed and do what the pools set out to accomplish. . . .

The two systems of selling are posed against each other pretty clearly, and the public intelligence will have to size them up. Open trading may be subject to many serious criticisms, but it is still operating as a commercial system. Controlled selling has broken down, or gone out of existence, accompanied by loss and wreckage ; but its advocates still have arguments to demonstrate its necessity. And the important fact about the arguments is their insistence on wider application of control. A federal grain board would be the last control of all ; the entire crop would go under government supervision, and Canada would find itself in the grain business. . . . If the world's economic trend is such that the production and sale of staple commodities is to pass into government control in the national interest, that is another story altogether, and one that opens up new prospects for public consideration.

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While this editorial does not reach any definite conclusion, having regard to the paper's past editorial policy the writer of this article considers it a fair inference that the editor believes that co-operative selling, as it is understood in western Canada, has for the moment failed. It is certainly unlikely that a convinced individualist like Mr. Bennett will want to see it re-established on its old basis.

There is one experiment, born of our existing difficult conditions, which may have far-reaching results. Some of the lending institutions have formed a farm management group and secured as its head a man who has achieved considerable success as a farm manager in the United States. The manager points out that every individual farmer is running a business in which he has to be an expert in many different lines ; that this is not the case in other businesses which have a special expert for each particular line ; that a farm manager with tact and judgment can, however, gain the confidence of the farmers under his care, and by doing something to meet the need of expert assistance obtain important results. A day spent with one of the farm managers in this enterprise was full of interest and hope. The farms were not far from Winnipeg. The farmers were in difficulties and their demeanour showed that they were glad to have someone with whom to talk things over. One of the incidental advantages of farm management, of which we saw an instance, is the protection that it gives to farmers against the high pressure salesman of machinery. Another of the farm manager's aims is to persuade the farmer not to abandon a particular line as soon as it becomes unprofitable, but, as the manufacturer so often has to do, to keep it going even though it means a loss for the time being, in full confidence that it will again become profitable.

One of the incidental advantages which the farm manager hopes will result from this system is that the western farmer will no longer regard farming as a thing at which he works for a month or two in the spring and a month or so in the autumn but as a whole-time job—in other words,

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that he will come to look upon farming as a calling which, like every other calling in the world, demands attention the whole year round. In this connection it is interesting to know that more than one shrewd observer in the West remarked that they had far more well-grounded prosperity with dollar wheat than with \$1.50 wheat. With dollar wheat a farmer would have a profit, but not a large enough one to enable him to abandon every other form of production, which was the tendency in the past when the price was high.

There has been a good deal of talk about the corporation farm of ten, twenty, thirty and forty thousand acres. Statements about the success of these farms should be received with reserve in so far as results up to date are concerned, and with still more reserve as regards the future in view of the necessity of adopting more intensive forms of cultivation in order to maintain the fertility of the land. The best view in western Canada appears to be that the large family farm, somewhere in the neighbourhood of a section—640 acres—is the unit which ought to offer the best chance of success, yielding, as it does, a sufficient volume to enable costs to be kept down, and yet being sufficiently small to render possible at least a minimum of personal attention and a rotation of crops. One must at least hope that this is what the future has in store. The corporation farm, the "Kolhoz," seems to offer little in the way of a life to our western people.

This section opened with the statement that western Canada is at war. The surest guarantee of the success of the campaign is the quality of our western people. They have fought periodic campaigns before and the result has always been that the country has come out stronger, broader based and better equipped for future campaigns. After all, none of the problems of to-day is new—merely greater in extent. Those who have known the West from the beginning and who have seen it progress—perhaps not always from year to year but from decade to decade—have

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no fear that its progress will be arrested or that the western farmer, with the strong incentive which owning his own land supplies, will fail to fight his way through the embarrassments of the moment and come out stronger and better than ever.

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July, 1931.

AUSTRALIA : MONETARY POLICY AND FINANCIAL RECONSTRUCTION

I. THE POLITICAL BACKGROUND

IN the last issue of *THE ROUND TABLE* Mr. Theodore's policy of "controlled" inflation was described. That policy was the Commonwealth Government's answer to the February committee of economists and under-treasurers, to the premiers of five States and to the bankers, all of whom insisted upon budget economies as the first step towards financial reform. The policy was embodied in three Bills—a Bank Interest Bill (now dropped), a Fiduciary Notes Bill, and a Bill to amend the Commonwealth Bank Act in respect of the note issue (commonly known as the Gold Export Bill). The first provided for the appointment of a board to make recommendations to the Treasurer concerning bank interest, which could then be altered by order of the Treasurer. The second empowered the Treasurer to issue £18,000,000 of fiduciary notes for the relief of farmers and unemployment. By the third the legal minimum gold reserve of 25 per cent. against notes was to be abolished, notes were no longer to be convertible into gold on demand, and a limit of £60,000,000 was fixed for the note issue. Further, it was provided that the Government might acquire gold from the Bank "for the discharge of the indebtedness of the Commonwealth in London." The Senate rejected both the second and third Bills on the ground that they did not provide any means

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for dealing effectively with the financial position either at home or abroad.

The ultimate control of the currency lies with Parliament, and the Opposition has a majority in the Senate. It thus became clear that as parties now stand the Government's monetary policy could not be carried into effect. On the rejection of the Fiduciary Notes Bill, however, Mr. Scullin announced that the Government intended to proceed with its plan, and that, if the Senate again rejected the Bill after the statutory interval of three months, he would seek a double dissolution. Meanwhile, late in April, Mr. Theodore had presided over a stormy meeting of the Loan Council, at which an important decision was made "that the Loan Council is of opinion that Australia must aim at securing a balanced budget at the end of June 1934." A sub-committee of three was appointed to report to the Council, and was empowered to co-opt the services of "economists and such other advisers as it may deem fit."

Meanwhile the Government of New South Wales, with important consequences for the whole of Australia, was moving in quite a different direction. The influence of New South Wales outside its own territory is felt partly through its representation in the Federal Parliament, partly through its expenditure on the public services and partly through its share in the public debt, for which the Commonwealth has now taken over responsibility. The victory of Labour at the New South Wales elections involved the defeat of the policy of financial rehabilitation agreed upon by the State and Federal Governments in the preceding August. It meant that New South Wales would not voluntarily economise, and would strain its own credit and that of the Commonwealth to the utmost attainable limits. It meant also that the representatives of the State in the Federal Parliament would try to prevent the Government of the Commonwealth from carrying out a policy found to be unpopular in New South Wales.

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At the Conference convened by Mr. Theodore in February after his reinstatement, Mr. Lang, who at the State elections had declared himself in favour of high expenditure but no repudiation, announced that his Government intended to default in its payment of overseas interest at least temporarily, and invited the Conference to adopt a similar policy for Australia. The Lang plan, which included radical changes in the currency, was advocated then and subsequently as an alternative to the Theodore plan of inflation with payment of interest overseas in full. It gained four adherents from among the New South Wales representatives in the Federal Parliament, who formed a group of their own which will oppose all government measures except to the extent of bringing about a general election, and it was advocated by emissaries from New South Wales in other States. It may be that personal and political differences between Mr. Lang and Mr. Theodore will split the party organisation in New South Wales, and even lead to the appearance of rival Labour candidates at the next Federal election. In the other States Mr. Lang and his emissaries were coldly treated by the party officials, and, notwithstanding some enthusiastic meetings, appear to have made little headway. The Lang plan was, however, adopted by the party in the State Parliament and by the State organisation. The plan was put into execution by the failure of the Government to pay interest to overseas bond-holders, which was followed by the issue of writs on behalf of the Commonwealth and the States claiming to be indemnified for the extra burden which this default placed upon the Commonwealth revenue.

Mr. Theodore's reinstatement and the resignation of Mr. Lyons were followed by the formation of a United Australia party, which included the Nationalists and some former supporters of Mr. Scullin, with Mr. Lyons as Leader of the Opposition; Mr. Latham, who had filled that office with conspicuous ability and authority, consented,

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with characteristic public spirit, to become deputy leader. It was thought that Mr. Lyons, who had been warmly applauded for his conduct during Mr. Scullin's absence, was admirably fitted to advocate a policy of orthodox finance at a general election. The inflation policy, which may now be regarded as abandoned, was made the main issue at the State elections in Tasmania shortly after Mr. Lyons' appointment, where it was championed by the Leader of the State Opposition with the personal support of Mr. Theodore. The result was a decisive victory for the Government, the sole instance of a government which has gone to the country during the present depression being returned to power.

Such was the position in the middle of May. The Commonwealth Government was still committed to a policy of inflation and to an election on that policy. New South Wales had publicly defaulted on payments of overseas interest, and the Commonwealth, under the Financial Agreement of 1927, had assumed responsibility for these payments. The directorate of the Commonwealth Bank had set a limit of £25 million to the overdraft in Australia. This limit would be exceeded on June 30, and default was inevitable. July to December are lean months for the treasuries, and it is doubtful whether, in the absence of further central bank credit, governments would have had sufficient funds to meet their commitments. The situation was critical. Eight months after the August (1930) agreement the country was faced with a stoppage of payment because the two most important governments had quite flagrantly refused to carry out the policy implied in that agreement, and the steps taken by other governments were not adequate. Confidence in governments was rapidly waning, and the closing of the Government Savings Bank of New South Wales on April 23 was a stern reminder of the evils that would accompany a further decline in confidence. Open discussion of the effects of a Labour victory at the New South Wales election in November had

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weakened the position of the savings bank in that State. The announcement of the "Lang plan" of repudiation in February, and the acute division between the Commonwealth and State Labour parties caused additional difficulties. The closing of the bank had a marked effect on the political situation. To this must be added the unfavourable reception of Mr. Theodore in the southern States, the imminence of default and the overwhelming victory of the Nationalist party in Tasmania on May 9. Mr. Scullin was forced to reconsider his financial policy.

II. THE EXPERTS COMMITTEE

THE sub-committee of the Loan Council commenced its deliberations on May 20. Having obtained the budgetary information which it sought, it had already secured the assistance of four economists and the under-treasurers of all the States but New South Wales. This committee of nine, referred to below as the experts, presented its report on May 23. The report set out the main facts of the budgetary position of the Australian governments and outlined the results of certain steps that might be taken to balance budgets. The estimated deficit for the current year (1930-31) was found to be £31 million and that for next year, after allowing for proposed economies, to be £39 million, or £41 million if revenue fell short of the estimates. Three main questions were then considered: (a) What further economies were possible? (b) What increases in revenue could be got from taxation or any other source? (c) If these failed to meet the probable deficit, what further measures were necessary?

With regard to (a), the experts took as a standard for economy the fall in the Federal basic wage since 1928. This was 20 per cent. Applying this standard to all departmental expenditure and public utilities, amounting in 1929-30 to £98 million, there was a possible economy

The Experts Committee

in 1931-32 of £20 million. The estimates submitted provided for economies of £11 million. There was consequently a further possible saving on this standard of £9 million. From pensions (old age, invalid and war), a saving of £4 million could be made, raising the total of new economies to £13 million. From taxation, it was thought that £12 million might be raised by increasing the sales tax and primage duty and from income taxes. The only remaining means of reducing the deficit was a reduction of the internal interest burden, which on June 30, 1930, amounted to £27·8 million. In common with other property incomes, this interest, except, of course, interest on tax-free bonds, had been subjected in November last to a surtax of 1s. 6d. in the pound (7½ per cent.). Additional taxation would have to be imposed upon those incomes, and that was contemplated in a Bill already before the House of Representatives. The surtax was to be raised to 3s. 6d. in the pound. The experts held that such taxation would keep up the rate of interest and render conversion operations difficult. They therefore suggested an alternative method of meeting the position. The present surtax could remain, but a reduction of 15 per cent. in the interest payable could be arranged by "an immediate conversion of government securities at a new rate of interest." Such a conversion "could only be achieved by a great patriotic movement backed by a large volume of consent on the part of bond-holders." It would be necessary for the loan to be underwritten by the banks so that bond-holders not consenting might be paid off. The experts were aware that such a transaction was technically a breach of contract, but they justified this procedure on the ground that insistence on the fulfilment of contracts to the letter, in present circumstances, "might force the debtor governments into a policy that would surely destroy the value of the bond." Only in so far as bond-holders preferred to take cash rather than to accept a lower rate of interest would there be any interference with contract. This would have been a minor

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breach compared with the strong element of compulsion that was proposed later at the Premiers' Conference. A 15 per cent. reduction in the interest burden would produce a net saving of £3,000,000. The gross saving would be £4,170,000, but governments would pass on to their own debtors the reduction in rates of interest and there would be some loss of income tax. The deficit in 1931-32 would then be from £11 million to £13 million, an amount that could be met by borrowing "from current savings rather than from new bank credits." As trade improved revenue would increase and expenditure on unemployment fall until the deficit disappeared.

The experts added that borrowing to bridge the gap "will be over and above the funding of the existing short-term indebtedness, both in Australia and in London, which is so necessary to the restoration of Australian credit." But such borrowing would not be possible "until we have made honest and determined efforts to meet the interest on our existing liabilities." The plan was indeed designed to place Australia in the position of making the maximum effort to discharge her external obligations. The adjustment of internal finance, though burdensome and difficult, was a national task from which no class should be relieved. The experts had exposed the facts, enunciated a plan for restoring national finance and created an atmosphere in which very drastic, but necessary, measures could be taken.

In a brief report to the Loan Council the sub-committee recommended that the main features of the Experts' Plan should be carried out. This report, together with the experts' report, was considered by the Loan Council on May 23 and referred to a Premiers' Conference convened for May 25. Political differences were quickly submerged, and with one important exception the Conference reached an agreement upon the main issues involved. After the first two days it became clear that a complete plan might be worked out on the following basis :

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1. A cut of 20 per cent. in all adjustable government expenditure as compared with the year 1929-30.
2. A reduction of $22\frac{1}{2}$ per cent. in the internal interest burden through a huge conversion operation.
3. A reduction in bank interest rates, including those of trading banks and savings banks.
4. Increased Commonwealth taxation to the extent of about £7.5 millions.
5. Some measure for the reduction of interest on private mortgages.

III. THE QUESTION OF COMPULSORY CONVERSION

THE Commonwealth Treasurer on the first day of the Conference recommended the conversion of the outstanding public debt in Australia to a new stock with an average rate of interest of 4 per cent. The average rate of interest on the internal public debt at June 30 was £5. 5s. 5d. per cent., and a reduction to £4 per cent. would amount to nearly 23 per cent. This figure was arrived at by including the 15 per cent. proposed by the experts, and taking in an additional $7\frac{1}{2}$ per cent. in lieu of the surtax of $7\frac{1}{2}$ per cent. imposed in November. This conversion loan was to be underwritten by the banks, and "holders of existing stocks and bonds not wishing to convert were to be paid off." This proposal was considered by a sub-committee of the Conference and representatives of the banks. At that meeting the bankers indicated their general approval of the conversion of the debt to a lower rate of interest, but declared that it was impossible for them to underwrite such a conversion loan. Without the co-operation of the banks it would be impossible to pay off the bond-holders who did not convert, so the Conference altered the proposal of the experts. It was decided to ask bond-holders to accept a reduction of $22\frac{1}{2}$ per cent. in the rate of interest, and to exempt those who were willing to convert from the present surtax of $7\frac{1}{2}$ per cent. and from any fresh taxation. An additional income tax of 25 per cent.

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was to be imposed on all securities not converted into the new loan.

This decision roused considerable controversy outside the Conference, and there were strong protests against the element of compulsion. This point of view was embodied in a letter sent to the Conference late on the afternoon of May 29 by the Leaders of the Opposition—Messrs. Lyons and Latham. They expressed general approval of the original proposal for a voluntary conversion, but remarked that “the proposals now being discussed are radically different. They are proposals for a compulsory, not a voluntary, reduction of interest on government loans. This is repudiation and default. The effect of this change of policy is already obvious upon the stock exchanges of Australia and abroad.” Over the week-end there was much private discussion of the letter, and the Conference received it on the Monday without discussion. Important developments followed. To have produced a plan which the Federal Opposition could not support might have led to its rejection by the Senate. It was, therefore, necessary to endeavour to secure the co-operation of the Opposition. The Commonwealth Government was prepared to return to the original proposal of a voluntary conversion if provision could be made for paying off the bond-holders who did not convert, or, alternatively, if measures could be taken later to force them to make the same sacrifice as those who did convert. Since the banks were unable to underwrite the loan the first alternative was out of the question. It now became a matter of securing an agreement upon the second alternative, and during the week efforts were made to devise a formula upon which the Leaders of the Opposition would co-operate with the Government in carrying out the plan for a voluntary conversion. By the end of the week sufficient progress had been made to justify an invitation being sent to the Leaders of the Opposition to attend the Conference on Monday, June 8.

At this meeting Mr. Lyons sought an assurance from

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the Prime Minister that the policy of inflation would be abandoned. To this Mr. Scullin replied: "If a satisfactory plan can be secured, it should be the financial policy of every government." Mr. Lyons then sought a further assurance that any agreement entered into at the Conference would be acted upon and not treated like the August agreement. To this Mr. Scullin replied: "The agreement of the Government on that point is that the action taken must be on a complete plan, and all action must be simultaneous and, if possible, that all the Acts be proclaimed on the same date." Having received these answers Mr. Lyons then proceeded to offer the full co-operation of the Opposition in bringing into operation the whole plan, including a voluntary conversion of the public debt. He was supported by Mr. Latham, who dramatically summed up the position as follows:

We are met and confronted with an unprecedented position, and unprecedented steps must be taken to deal with it. We now make an unprecedented offer. We, as an Opposition to a Government, offer to come in with the Government wholeheartedly, *bona fide*, with all our energy, enthusiasm, and ability, to try to make a particular proposal a success.

Whilst the Leaders of the Opposition would not commit themselves to a compulsory conversion of the internal debt, they made it clear that special action would be necessary to secure a sacrifice from bond-holders if any were unwilling to convert their holdings. At a meeting between the Government and the Opposition on the following morning, an agreement was reached in the following terms:

The Conference, including the Leaders of the Opposition in the Federal Parliament, having most carefully considered the financial position of the Commonwealth and the States, is unanimously of the opinion that, to prevent national default in the immediate future and a general failure to meet government payments, all expenditure, including that upon governmental salaries and wages, pensions and other social services, and interest on government securities and other interest, must be substantially reduced.

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These measures, drastic as they may appear, are the first essentials to the restoration of prosperity and the re-employment of our workless people.

The necessary sacrifice is due to national inability to pay, and it must, therefore, be shared by all.

The Conference has accordingly provided a conversion plan under which bond-holders may make their contribution to the general sacrifice by themselves accepting the lower rate of interest which the existing position makes unavoidable.

The Conference, therefore, appeals to all sections of the people to recognise the position, and in the interests of the nation to accept the sacrifices which are involved.

A National Appeal Executive, consisting of the Prime Minister, the Leader of the Opposition, and the Chairman of the Commonwealth Bank Board, is appointed by the Conference to direct the conversion campaign.

To this Mr. Lang objected, on the grounds that it did not contain a specific pledge that definite action would be taken against the bond-holders failing to convert their holdings. He supported the voluntary conversion, with the following qualification :

The Government of New South Wales is prepared to subscribe to the resolution now before the Conference, subject to the following distinct limitation : That the Government of New South Wales shall not be obliged to take the necessary steps towards the reduction of 20 per cent. in all adjustable government expenditure as compared with the year ended June 30, 1930, including all emoluments, wages, and salaries by the governments whether fixed by statute or otherwise, unless and until the conversion loan shall have been successfully and effectively carried out.

Having reached agreement on this point, the Conference quickly completed its work. The Commonwealth Government had submitted its budget proposals to the Conference during the discussions with the Leaders of the Opposition. They embraced an average cut of 20 per cent. in salaries and wages on the 1929-30 standard. To achieve this, low incomes were to be cut 18 per cent., middle incomes 20 per cent., and higher incomes 25 per cent. Old age pensions were to be reduced from £1 to 17s. 6d

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for destitute persons, and to 16s. for others. Soldiers' pensions were to come down the full 20 per cent. except in the case of soldiers out of employment. The Government's taxation proposals were equally drastic. By raising the sales tax to 5 per cent. it would secure additional revenue of £4 million, by increasing the primage duty to 10 per cent. £2.4 million, and by increased income tax £1.5 million, giving a total new taxation of £7.9 million. From this must be deducted the yield of the special tax of 1s. 6d. in the £ on property income, amounting to £400,000. The net increase in taxation was, therefore, £7.5 million.

For the States, with the exception of New South Wales, the full 20 per cent. cut in expenditure according to the experts' proposals was agreed upon. In some cases, owing to the reduction of services, the estimated decline in expenditure in 1931-32, compared with 1929-30, will be over 30 per cent. For New South Wales Mr. Lang declared that he must look to the higher incomes for almost all the additional savings on salaries and wages. He proposed to appeal to the higher salaried officers to reduce their incomes to £500 a year. "Should they fail to respond to the Government's appeal to their patriotism, we would then have to introduce legislation similar to that which the Conference proposes should be brought in to compel the tax-free bondholders to convert." It would be of no avail to attempt to persuade Mr. Lang that there were substantial differences in the two cases.

According to the estimates placed before the Conference, the deficits of the Governments in 1931-32 will be as follows: Commonwealth, £4.38 million; New South Wales, £5.41 million; Victoria, £1.31 million; Queensland, £.76 million; South Australia, £1.50 million; Western Australia, £1.20 million; and Tasmania, £.09 million, making a total of £14.65 million.

Before the Conference disbanded, the following resolution was passed: "The representatives of each govern-

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ment present at this Conference pledge themselves to give effect promptly to the whole of the resolutions agreed to at this Conference." It was proposed to embody these proposals in a Commonwealth Act for a conversion loan, a Debt Conversion Agreement Act signed by all the States and ratified by the Federal Parliament and the State Parliaments, a Financial Emergency Act embodying the cuts in expenditure, a Bill empowering trustees to convert their holdings of Commonwealth stock, and a Mortgage Relief Bill by the States. The last mentioned is designed to provide machinery whereby mortgagors could appeal to have their rates of interest reduced by $22\frac{1}{2}$ per cent.

IV. A RECORD OF ACHIEVEMENT

THE Conference thus achieved three important things.

1. It has taken the problem of financial rehabilitation out of the arena of acute party controversy. This result is perhaps the most striking. It should go far to make the whole plan a success, and in particular to bring about a conversion of a very large proportion of the internal debt. About 40 per cent. of the debt is held by financial institutions—banks, savings banks, trustee companies, insurance companies—and most of this will be converted. If 60 per cent. of the remainder is converted there will be a balance of 25 per cent. outstanding, a result which should convince the outside world that Australia is prepared to make the necessary sacrifices to restore her finances and meet her external obligations. With the sanction of the holders of 75 per cent. of the debt there could be little objection to the application of compulsion to the remainder. The circumstances are exceptional and the operation is possible only because the seven governments of Australia have agreed to it. This agreement is embodied in a measure

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similar to the financial agreement of 1927 made under section 105A of the constitution.

The plan has been assailed by two main classes of critics. In the Labour ranks there is opposition to the reductions in pensions and salaries ; in Nationalist circles criticism has been directed rather to the blow struck at the institution of contract by the conversion proposals even in the modified form in which they were adopted. Critics fear not only that this agreement may serve as a precedent for like raids upon the public creditors whenever future Governments find themselves in difficulties, but also that the immediate result of the plan will be widespread refusal throughout the community to honour legitimate obligations. To the first of these fears it is some answer to urge that only a national emergency like the present could secure the consent of every government and parliament in Australia, without which such action would be impossible. So far as the second fear is concerned, a great deal will depend on the good faith with which the plan is carried through in the community at large. The risk attending default, the only alternative, would certainly be much greater and far more grave. It is useless to ignore the situation in which the plan was promulgated. The experts found that national income had fallen from £650 million before the crisis to £485 million in the current year. They estimate a further fall to £450 million next year. Loss of income from exports, unemployment at home, and a sudden fall in domestic prices, are the main causes of this decline in income. At this lower level of income the burden of fixed money claims would be intolerable, and the reduction in interest on the internal public debt appears to be the forerunner of an all-round reduction in these fixed money claims. More than half of the fall in the rate of interest is a mere adjustment of money payments to a lower level of prices, and involves no loss of real income. The rest is a contribution from the bondholder to the loss of national income. To those who reject the plan on grounds of unwarranted

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interference with contracts, its advocates reply that there is strong economic justice in the plan, and that what is economically sound and just should not be considered morally wrong.

2. The second achievement of the Conference is the abandonment of the policy of inflation, which had become a leading political issue. It is a remarkable change of front for the Commonwealth Government. To finance the remaining deficit some creation of additional bank credit may be necessary, and to this extent there will be a continuance of inflation. Such inflation will, however, be carried out under the strict control of the Commonwealth Bank, and with the prospect of balancing all budgets in the near future.

3. Finally, the Conference has definitely set Australia on the road to deflation, to an adjustment of her internal prices and costs in conformity with the fall in overseas prices. It has been objected that such a policy will reduce the spending power of the people and increase unemployment. This is a short-sighted view. A serious illness may be cured by surgical treatment, and the patient is naturally debilitated by the treatment, but the end justifies the means. The process of deflation in Australia is necessary to reduce costs and restore the margin of profit in private industry. With a moderate adjustment in industrial costs some secondary industries will be able to enter the export market, and new industries will be established to compete with imports. It is only in this way that Australia will be able ultimately to absorb her present unemployed. If the process of adjustment involves an immediate increase in unemployment it should soon be followed by an expansion of industry and the absorption of the displaced workers.

As an indication of the readiness of political parties to agree upon the necessary measures to implement the Conference plan, the quick passage of the modified Gold Export Bill by the Federal Parliament may be mentioned. This Bill provided for a reduction of the gold reserve against

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notes from 25 per cent. to 15 per cent., for the restoration of the former ratio by 1934, and for the export of £5,000,000 in gold to meet Treasury Bills falling due on June 30. No objection was raised to this measure in the Senate.

The Commonwealth Savings Bank has reduced rates of interest on deposits by 1 per cent., and other savings banks will follow its example shortly. Trading banks have reduced their deposit rates by 1 per cent., and rates on advances are in general being reduced by the same amount.

V. PARTY REACTIONS

IN the Federal Parliament and in those States where Labour governments are in office, *i.e.*, New South Wales, Victoria, and South Australia, it was expected that the Conference proposals would be received with some opposition by the rank and file of the Labour party. The Federal executive* of the Australian Labour party met at Canberra on June 18 and 19, and after much controversy passed the following resolution by a narrow majority :

The executive of the Australian Labour party is opposed to that part of the plan which involves reductions of wages, pensions, and social services. The executive recognises that the Scullin Ministry's monetary policy has been thwarted by the banks and the reactionary Senate, and that widespread industrial stagnation and unemployment have been created and have led to a collapse of national finances. The executive is convinced that a Nationalist Ministry as an alternative to the present Labour Ministry would be abhorrent to the workers and disastrous to the country. It is of the greatest importance that the Labour Ministry should remain in office during this time of crisis to prevent the enemies of Labour from enforcing a ruthless policy of aggression against the hard-won rights of the workers. The restoration of the workers' conditions will depend upon the return of Labour at the poll with a majority in both Houses of the Commonwealth Parliament.

* The executive of the party is the body appointed at the annual conference of branches and affiliated unions. It is naturally more radical than the caucus composed of the Labour members of both Houses of Parliament.

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Meanwhile, Mr. Scullin had pushed on the preparation of the necessary legislation, and had on June 18 introduced the Debt Conversion Agreement Bill. On the same day Mr. Theodore announced the budget changes involved in the plan. Approval by the party executive was thus anticipated, but Mr. Scullin could not have expected such a large minority in both the executive and the parliamentary caucus. Two ministers resigned, and when a vote was taken on the Debt Conversion Agreement Bill no less than 15 Labour members voted against it, and five others were "paired" among the "Noes." In South Australia Mr. Hill proceeded with his legislation despite opposition from the State executive of the party. In Victoria Mr. Hogan was confronted by a hostile party executive, which declared its complete opposition to the plan, and threatened Labour members who voted for it with a refusal of endorsement at the polls in the next election. Mr. Hogan ignored this decision, and proceeded with his legislation, though against much latent opposition in his party, which agreed to the plan by 22 votes to 11. The decisions of the State executives of the party in South Australia and Victoria, supported by the strong minority in the Federal executive, may yet lead to a serious split in the Labour party. In New South Wales Mr. Lang's first act was consistent with his proposal to secure all his economies in salaries from the higher salaried officers. On June 22 he had conferred with the Prime Minister and the Premier of South Australia, who with him had been appointed a sub-committee at the Premiers' Conference to consider: (a) the withdrawal of the Commonwealth writ against New South Wales; (b) the opening of the Government Savings Bank; and (c) the return of New South Wales to the Loan Council. Little has been made public concerning these conversations, but there were difficulties in restoring all the departments of the Savings Bank, and it must be assumed that the Conference failed. Thrown on his own resources, Mr. Lang submitted to Parliament a Bill for emergency taxation

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commencing with 1s. in the £ on wages and incomes from £200 to £260, and rising to a flat rate of 5s. on incomes of £520 or over. The Bill passed the Lower House on June 26 and was rejected by the Legislative Council on June 29 by a large majority.*

All the States except New South Wales have now passed the Debt Conversion Agreement Bill, and the other measures will shortly be submitted to the Parliaments. The Commonwealth has passed the Debt Conversion Bill providing for the reduction of $22\frac{1}{2}$ per cent. in the interest on the internal debt. Bond-holders are to be given 14 days from the proclamation date in which to record their dissent. A successful conversion, as agreed upon at the Conference, will restore the finances of the Commonwealth and five States, and no difficulty is anticipated in financing deficits from loans or bank credit. The Commonwealth budget will be beneficially affected to the extent of approximately £4,000,000 by the remission of interest on the war debt under "the Hoover announcement." The deficit will then be only £1,400,000 for 1931-32, as compared with an estimated deficit of £20,400,000 in the figures submitted to the experts in May. Such is the result of bold measures applied without regard to political consequences, and supported by the generous help of the British Government in agreeing to forgo temporarily both principal and interest on the war debt.

Australia.

July 2, 1931.

* At the time of writing (July 2) Mr. Lang has reverted to the legislation in force last year for the relief of unemployment and economy. The tax of 1s. in the £ for relief of unemployment has been re-enacted by the House of Assembly together with the Bavin Administration's Act reducing public service salaries by $8\frac{1}{2}$ per cent.

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POSTSCRIPT.

The Financial Emergency Act, giving effect to the agreed proposals for economy, came into force on July 20. On July 10 the Treasurer introduced the budget. He showed an accumulated deficit on June 30 of £21,050,000, of which £10,757,000 was incurred in 1930-31, including £3,834,000 of interest on New South Wales loans which had been paid by the Commonwealth. For 1931-32 he budgeted for a deficit of £5,176,300, but this would be reduced to £1,148,300 by the remission of war debt service under the Hoover plan. Increased income tax, super tax and sales tax, and new primage duties, would together yield £9,800,000, but total revenue from taxation would be about the same as in 1930-31. Prospective savings totalled £8,500,000. An attempt by the Opposition to grant only three months' supply was defeated by 34 votes to 19.

The New South Wales Government was forced to appeal to the Loan Council, on July 20, for an advance of £500,000 to meet civil service salaries and wages for July. The Council made its help dependent on the following conditions: (1) the State to assume responsibility for the payment of interest on the public debt; (2) the State to rejoin the Loan Council; and (3) legislative effect to be given in New South Wales to the decisions of the Premiers' Conference. On July 28 Mr. Scullin announced that Mr. Lang had accepted the conditions, but the Loan Council refused to advance the money until the rehabilitation plan had actually been given the force of law in New South Wales, and on August 6 salaries totalling £270,000 were withheld from State servants, including teachers and police. Meanwhile interest on the State's overseas debt amounting to £632,000 due on July 31 had been paid by the Commonwealth. On July 30 Mr. Lang introduced a Bill to reduce all public salaries to a maximum of £500 a year. The Legislative Council substituted a sliding scale of reductions, and on August 7 a compromise Bill with a sliding scale ranging from 8½ per cent. on salaries of £200 a year to 33½ per cent. on salaries exceeding £1,500 passed both Houses. Thereupon the Loan Council agreed to authorise the advance of £500,000, Mr. Lang's request for £2,000,000 for August and £1,000,000 for September being held over.

By the end of July all the parliaments had passed the Loan Conversion Bill, and on August 10 the conversion campaign opened under a National Appeal Executive consisting of Mr. Scullin, Mr. Lyons and Sir Robert Gibson. A period of 21 days was allowed for notification of dissent, extended to six weeks for holders absent from Australia. The conversion does not apply to loans raised outside the Commonwealth. The Commonwealth Bank immediately converted its holdings, which amounted to £57,000,000. On the second day of the campaign the Prime Minister announced that £150,000,000 had already been converted.—EDITOR.

SOUTH AFRICA

I. THE SESSION

IN an earlier article* an account was given of the position of parties in the Union, of the chief features of the first part of the 1931 parliamentary session, and of the main points in the general and the railway budgets. The prediction was hazarded that the session would end early in June. The prorogation, in fact, took place on June 6.

The last part of the session was, naturally enough, taken up mainly with the discussion of the budget and of the Government's financial measures. The clouds driven up by the economic blizzard hung heavily over the scene. Before the session ended the Opposition were able to adduce evidence in support of their contention, which in fact the Government's spokesmen at that stage did not deny, that the revenue estimates would prove to be over-optimistic, and that on both the general and the railway accounts the year would probably end with deficits a great deal larger than had been originally foreshadowed. The financial gloom still remains unrelieved, and in speeches made since the prorogation ministers have been hinting at further economies and railway "cuts." The presentation of next year's budgets promises to present most unenviable tasks.

At the root of the country's troubles is, of course, the effect of toppling world prices on the position of its primary producers, and during the last fortnight of the session the

* THE ROUND TABLE, No. 83, June 1931, p. 672.

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Government came forward with yet another proposal designed to assist a section of the farming community—in this case the maize growers, whose industry is of fundamental importance for most of the Orange Free State and for much of the Transvaal. This proposal, which has passed into law as the Mealie Control Act, is an interesting experiment in agricultural economics. In essence it is an attempt to secure for the producers a price above the world price, despite the existence of a surplus of production which has to be sold on the world market. South Africa's internal consumption of maize may be estimated to be, roughly, 12 million 200-lb. bags annually. In good years the production is anything up to 25 million bags; last year it was certainly not far short of that. This year, owing to drought conditions, it will probably be about 15 million bags, leaving 3 million bags for export. Now, at current world prices the export price of maize for the South African producer works out at about 3s. a bag—for him an entirely unremunerative sum—and it is this figure which would, in an uncontrolled market, determine the price that he would receive. The aim of the Government's policy is to secure for the farmer a price of about 7s. 6d. a bag. To this end they have arranged, by means of a limited government guarantee, that the Land Bank should give an advance of 7s. 6d. a bag in respect of maize sold through co-operative societies. This, however, in itself would not be sufficient to secure the object intended, for the majority of the producers, and especially the large producers, have hitherto fought shy of the obligations of membership of the co-operative societies, and have preferred to sell through private traders. There is the danger that the co-operative societies might be left with the whole burden of the exportable surplus, and with the loss contingent on the low world prices prevailing. This the Mealie Control Act is designed to prevent. It lays it down that all purchasers of one hundred or more bags of mealies a

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month in the course of trade must hold for export a certain proportion of their purchases, in accordance with a quota to be fixed by the Minister of Agriculture before the end of August. Thus, it is contemplated, the burden of the surplus will be shared, and producers generally will be assured a price approximating to that of the Land Bank advance, with no danger of loss through the inability of the co-operative societies to realise the amount of that advance. The home consumer is of course deprived of the benefit of the low world price, but in such matters he is the last to be considered.

This legislation is admittedly experimental, and almost certainly temporary. It was hastily drafted, and was rushed through a weary House. Various flaws have already been exposed. Pending the fixing of the quota, the market is disorganised, and the possible effects of an error of judgment in that determination give cause for much anxiety. If the quota figure is placed too low, the purpose of the Act will be partially defeated; if it is placed too high internal prices will rise, and far-reaching repercussions may result. The minister has taken on himself no easy task.

So much for economic questions. For the rest, the most important issues that occupied the attention of members were hardly, if at all, debated on the floor of the House. The Joint Select Committee of Senate and Assembly continued its examination of the Prime Minister's Native Bills*—its report was merely to the effect that it had not completed its labours. It will probably be given the opportunity of doing so as a commission during the recess. If so, the Native issue will loom large during the 1932 session, perhaps entailing an early general election.

The provincial problem† has also been casting a shadow of fluctuating intensity over the parliamentary scene.

* THE ROUND TABLE, No. 78, March 1930, pp. 418-19; and No. 79, June 1930, pp. 644-5.

† THE ROUND TABLE, No. 73, December 1928, pp. 206-210.

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It is finance that is bringing this issue to a head. The Provincial Councils, notably those of the Free State and the Transvaal, are again in difficulty. They cannot pay their way. Some revision, at least of the financial relations, is imperative. It is clear, however, that the Government would like to seize the opportunity of dealing with the problem in its wider aspects as well. The provincial system is, of course, a constitutional makeshift, based on a compromise, which was, perhaps, inevitable at the time of union, but which has not been able to secure for itself the roots of permanence. It is significant that while the Nationalist party, when in opposition, stoutly championed provincial rights, Nationalist ministers have veered increasingly towards abolition of the system. It is clear that to-day the Cabinet as a whole is ready to follow that course; it is not so clear that it envisages the necessity of developing an adequate system of local self-government, more especially in the rural areas, to take the place of the Provincial Councils when they disappear. Its general tendencies are, in fact, rather towards centralisation and bureaucracy and "administrative lawlessness."

But the Nationalist party as such is still far from being abolitionist, and it is probably because of this fact that early in the session the Government approached General Smuts with the request that the Opposition should participate in a conference for the formulation of an agreed provincial policy. The South African party has in the past been much more inclined to favour provincial reform than the Nationalists—for that reason it might have been expected to welcome such an invitation. After long consideration, however, it decided to reject it. The chief opposition to acceptance came from the Natal members, who, with one exception, belong to the South African party, and constitute a solid and somewhat distinctive bloc within the party. Natal favoured federation rather than unification at the National Convention; it has remained sturdily federationist throughout. It still prides itself

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on its specifically Natal point of view. It is predominantly British; it is geographically isolated; it is acutely sensitive to any impairment of its individuality. Throughout it has clung to its Provincial Council, hoping that it might yet grow to be a State parliament in a federal South Africa. And when, a few years ago, these feelings showed signs of weakening under pressure of the unpopularity of provincial taxation, the flag controversy came along to confirm and strengthen them. For a time Natal became far more British than Great Britain; its determination not to be swamped by the rising tide of what it regarded as anti-British secessionist nationalism was intensified, and the Provincial Council stood out more than ever as the palladium of its distinctiveness.

It is, therefore, not to be wondered at that Natal should have taken fright at the sinister intent which seemed to lurk in the Government's invitation to a provincial conference. But it was not Natal alone that took fright. For the proposal came at a time when the country as a whole was having its attention directed to those centralising tendencies of the Government's policy, to which reference has been made above. Several of its measures, both of minor and of major importance, during the last two sessions of Parliament, have indicated those tendencies. Many people, who had been critical of the provincial system in the past, became apprehensive of the prospect of a further restriction of local liberty. It was clear that a revision of the provincial system meant, as far as the present Government is concerned, merely centralisation and not a new and better system of local government—and, in the outcome, the whole of General Smuts's parliamentary party supported him in declining the invitation to any conference in which abolition would figure on the agenda. The Government has, therefore, been left to deal with the problem by itself. The indications are that it will tackle merely the financial aspects, leaving the constitutional position substantially unaltered.

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More effective than anything else in hardening the opposition to any change in the provincial system which would lead to centralisation was the Higher Education Control Bill referred to in a previous article.* In that Bill, it will be remembered, the minister sought to increase his powers of financial control over universities and technical colleges. It was drafted in such a way that it would have been open to him to use those financial powers in order to force upon the institutions otherwise unacceptable policies in regard to bilingualism and the barring of oversea appointments. The Bill was vigorously attacked in Parliament, notably by General Smuts and J. H. Hofmeyr. The fight which the Opposition put up attracted much more attention outside than educational questions usually do. Certainly also the minister's desire to increase his authority in relation to institutions of higher education, with the prospect of that authority's being used in a manner unacceptable to a considerable section, had the effect of strengthening the feeling in favour of retaining through the Provincial Councils some measure of local control over other branches of education. As for the Bill itself, the fight put up by the Opposition was not without effect. Amendments were secured which bring under parliamentary control powers which would otherwise have been exercisable at the minister's arbitrary whim. Partly for that reason, partly, also, because of the vigour of the criticism evoked during the discussion, it is improbable that, for some time at least, the enactment as finally passed will be used for purposes other than of a specifically financial character. But even so it trenches far too drastically on the sound principles of university autonomy, and the universities will doubtless look to the Opposition to carry out their pledges to repeal it, as soon as they are in a position to do so.

* THE ROUND TABLE, No. 83, June 1931, pp. 677-8.

Statute of Westminster and Privy Council

II. THE STATUTE OF WESTMINSTER AND THE PRIVY COUNCIL

ON April 14 the Prime Minister introduced a motion into the House of Assembly approving the draft clauses and recitals adopted by the 1930 Imperial Conference for inclusion in the Statute of Westminster. The Assembly, which had already discussed the contents of these clauses on a previous occasion, confined itself in the short debate that followed to one main issue. There was, indeed, some reference on the part of Nationalist speakers to the so-called "right of secession," but the Opposition did not allow itself to be drawn. The issue referred to was raised by General Smuts, who moved as an amendment that the words "on the understanding that the proposed legislation will in no way derogate from the entrenched provisions of the South Africa Act" be inserted in General Hertzog's motion.

Those not conversant with South African politics will probably fail to understand the significance of this amendment. It obviously has no legal force, since it is not to be included in the Statute of Westminster itself. It is, in fact, the retort of the House of Assembly to an agitation for the power to get rid, by a bare majority, of clauses 35 and 152 of the Act of Union entrenching the native franchise of the Cape Province. Those clauses, as well as clause 137, which safeguards the rights of our two official languages, can only be repealed or altered by a two-thirds majority of both Houses sitting together.

Some time before the Prime Minister left for the last Imperial Conference, a prominent Nationalist wrote a series of articles designed to prove that the Parliament of the Union, having become a "sovereign body" as a result of the declaration of the 1926 Imperial Conference, could be bound by no instrument limiting its powers, and that it could, therefore, repeal the constitution given it

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by the British Parliament and substitute one nearer its heart's desire, with the "entrenching" stipulations omitted. The matter was taken up by the Cape Nationalist Congress, which asked the Government to appoint a committee of experts to report upon the subject. General Hertzog categorically repudiated, at the time, this ingenious method of depriving the Cape native of his vote. Now, in his reply to General Smuts' amendment, he argued the point more fully. The gist of his argument was that our Parliament cannot destroy the instrument which created it and by virtue of which it performs its functions. He did not, therefore, appreciate the utility of General Smuts's amendment, but in order to achieve unanimity he accepted it, whereupon the House of Assembly passed the amended motion without a dissentient voice, grateful, in the Prime Minister's words, that we have now come "to finality with regard to our constitutional freedom."

During the course of the debate one of General Hertzog's followers also raised the question of the Judicial Committee of the Privy Council and its position in our judicial system. The Prime Minister replied as follows :—

With regard to our relation to the Privy Council we can do exactly what we like. It is merely a question of what we want or do not want. . . . I want, however, to say again that we must be careful with regard to such matters. It is a matter which I would like to be considered first of all, and it can do no harm, when we are doing anything final, first to consult the Bench in connection with it.

During the second week of this month the Judicial Committee caused a considerable stir in legal and political circles in South Africa by announcing that it had given a native leave to appeal in a test case which involves the validity of the Native Administration Act of 1927 as far as the Cape Province is concerned.

The origin of the case in question lies far back in the history of native landholding in the old Cape Colony. Natives were first settled in "locations" on individual

Statute of Westminster and Privy Council

tenure in the 1840's, and after that time the Cape Government systematically encouraged the conversion of communal into individual tenure among natives. Since 1854 individual ownership of real property of a specified value has been one of the qualifications of the Cape franchise.

As the years passed, native title-deeds fell into confusion. To quote the words of the permanent head of the Native Affairs Department :—

Since the natives were unable to afford the European system of conveyance and transfer with its fairly heavy dues, allotments have passed from one to another without legal sanction or record of the transactions. I do not suppose that to-day 10 per cent. of the people on the land correspond with the title-deeds. We decided to make a clean sweep and to appoint a commissioner . . . to hold a court of enquiry. He will require every man sitting on a piece of land to show reasonable proof of ownership. If the court finds he is the owner it will give him a new title-deed in his own name . . . which he can transfer by going before a magistrate and paying only half-a-crown for a revenue stamp.

The Commissioner's instructions were framed in accordance with the provisions of the Native Administration Act. It seems that large numbers of natives were summoned to appear before the Commissioner with their title-deeds in order to prove their rights to their land and receive new titles. These natives live in that portion of old Kaffirland (the so-called Cis-Kei) which for a long time has been administered as an integral part of the Cape Province and where individual landownership has made most headway among the natives. Sixteen thousand of them refused to hand in their title-deeds, among whom was the Reverend H. K. Ndobe. Ndobe was sentenced by the Commissioner to pay a fine of half-a-crown for contempt of court. He appealed to the Eastern Districts Division of the Supreme Court and thence to the Appellate Division.

The case made on his behalf was that the Native Administration Act (under which the Commissioner was acting) on five points interfered, or might interfere, with the safeguarded rights of native registered voters in the Cape

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Province, and that, as it was not passed by a two-thirds majority, it was *ultra vires* the powers of the Union Parliament.

The Eastern Districts Court decided against Ndobe on the ground that the Native Administration Act did not directly affect native voters' rights. But the Court of Appeal based its decision on different grounds. It held that the necessity of a two-thirds majority applied not merely to an Act directly affecting native voters' rights, but to any Act which even indirectly affected native voters. It found that the Act, as it stood, might affect native voters' rights, but assumed that Parliament could not have intended this and therefore read into the Act a protective reserving clause, and thereupon dismissed the appeal.

Such are the issues involved in the case of *Rex versus Ndobe*. Whatever the outcome of the appeal to the Privy Council may be—but especially if it succeeds—the question of “our relation to the Privy Council” is almost bound to become a practical political issue and to be seriously raised in Parliament when it meets next January. Already prominent Nationalists have declared that it is “intolerable” that an external court should thus interfere in our affairs, and especially in our Native affairs. It may, however, be found that the abolition of the right of the Privy Council to intervene is not such a simple matter as at first sight it appears to be.

III. THE UNION CENSUS

AT midnight on May 5-6, 1931, there was a numbering of the people throughout South Africa. In the terms of the South Africa Act of 1909, a European census has to be taken every five years to supply the data for the quinquennial reallocation of seats in the House of Assembly

The Union Census

among the four provinces. A census of all, Europeans and non-Europeans, falls due every ten years. One such complete enumeration was made in 1911 and another in 1921; the third fell due this year.

It was very desirable that this complete census should be made, even though non-Europeans do not enter into the calculations of the Commissioners entrusted with the reallocation of seats. Many South Africans realise that their country is an unrivalled human laboratory of first-class interest to all who are anxious to know what happens when various nationalities, races and cultures essay to live side by side in a given territory. They felt that this census would give information of the highest importance to all whose task it is to order aright a crowded and rapidly shrinking *orbis terrarum*.

Further, for some years past, the Nationalist-Labour Ministry has been attempting to carry a comprehensive body of laws, notably the repeal of the Cape colour-blind franchise, which shall safeguard "White South Africa" against the rising tide of colour. Part of the justification pleaded for a policy which savours much more of those of the two ex-republics and Natal than of the old liberal Cape Colony, is the belief that the decade 1911-21 saw an alarmingly rapid increase of non-Europeans, especially of the already greatly preponderant natives (Bantu), an increase which threatened to swamp the Europeans. Calculations built up on this very short base-line of ten years created something of a panic as men looked twenty or thirty and forty years on, a panic which underlies much of the actual and proposed Native legislation. These calculations have been subjected to most damaging criticism by competent men who hold that the apparent increase is in the main due to the much more complete numbering of the Bantu in 1921 than ever before, and not to natural increase. These men looked for the confirmation or the disproof of their reassuring arguments to the census of 1931.

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The census authorities set to work in a fashion which bade fair to meet these demands.

The first object of the Census (they told us) is to obtain reliable figures of the population of the country, showing how the population is made up, that is to say, the racial classification . . . including persons of mixed race ; and further, how the population is distributed throughout the provinces, towns, villages, etc. . . . The habits, customs and condition of the people are always gradually changing, and the direction and extent of these changes can only be measured by the comparison of the results of successive censuses.

Unfortunately, on the heels of this unimpeachable statement came an eleventh-hour decree of the Government. "The Census of 1931 is now to apply to Europeans only. All references in this pamphlet to the enumeration of non-Europeans are therefore cancelled." And to avoid the risk of confusion, many thousands of non-European census forms which had already been printed had to be destroyed. Avowedly, the cancellation was due to the need of economy. Times are admittedly bad, though not so bad in gold-producing South Africa as in many other parts of the world. But surely they are not so bad as to warrant the withdrawal of a comparatively small expenditure which would have given the world, and above all the Union, information which they sorely need. However, there it is. The Union held merely a semi-census, a numbering of the People instead of a counting of the population.

As regards the dominant 25 per cent. of that population, we shall, allowing a margin for unsuspected Europeans who were not given census forms, learn how many are South African born and how many not, how many are married or otherwise, how many are bilingual, how many are clerks or bricklayers, how many are Christians, Jews, agnostics or unclassified ; we shall even know how many dwell under slate roofs and how many under the humbler corrugated iron. But of the darker-skinned 75 per cent. we shall learn nothing. The cry goes up that this great

The Union Census

majority is invading every walk of life except membership of Parliament and certain skilled occupations from which they are debarred by law; yet the major factors of that problem are all to remain *x*. Presumably, till the next real census falls due in 1941, we shall have to do the best we can with figures which are already ten years old. In this vital matter, the Union Government stands alongside poor Jim Jay "who got stuck fast in yesterday." But they will have to legislate for to-day—and to-morrow.

Some of the preliminary results of the census are none the less interesting, always bearing in mind that they refer to Europeans only. That section of the population has increased during the past five years (1926-31) from 1,677,322 to 1,825,527, an increase of 8·84 per cent. as compared with 10·34 per cent. between 1921-26. Our males still out-number females considerably: 929,516 against 896,010, though the women are slowly gaining in numbers on the men. Three tides can be traced: one from the Cape and Free State to the more highly industrialised Transvaal and Natal; another from the rural areas to the towns; the last, hardly perceptible, into the Union from outside. A short table will best illustrate the first tendency:—

| | Expected natural increases (in percentages). | Enumerated increases |
|-----------------------------|--|-------------------------|
| Cape | 7·88 | 5·67 |
| Natal | 6·10 | 11·65 |
| Transvaal | 8·93 | 14·34 |
| Orange Free State | 8·78 | 1·16 |
| Union | 8·20 | 8·84 |

As for the flow from the countryside to the towns, it is going on fast. Nine large urban areas accounted for 74·1 per cent. of the total increase; the rest of the Union for the remaining 25·9; and it should be borne in mind that in the rural areas families still rule large. For sheer size,

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Johannesburg takes pride of place (201,784 as against 170,741 in 1926) with Cape Town next (146,249 as against 130,568) and Durban third (86,296 as against 70,883). But it is worth noting that one of the Cape coast towns, Port Elizabeth, shows the greatest proportionate increase. In most districts the small towns have also gained at the expense of the farms.

Thirdly, immigration by land and sea, including our happily increasing number of visitors as well as the considerable number of those who pass through the Union to and from States further north, shows a slight balance over emigration: 202,721 arrivals as against 190,226 departures, a modest gain of 12,495 in five years.

The census with all its shortcomings does give us the basis for a reallocation of seats in the Lower House. At the time of union in 1910, these totalled 121. Of these the Cape held 51, since it had been deprived of at least six seats for the benefit of the two smaller provinces, which were given specially high representation; the Transvaal held 36, Natal 17, and the Orange Free State 17. To-day the figures are 58, 55, 17 and 18 respectively in a House of 148. All that can be said at the moment is that the coming delimitation will probably give the Union an Assembly of 150, which is the maximum that the South Africa Act contemplated "unless and until Parliament otherwise determines," and which also sees the end of the special treatment of Natal and the Free State. In the new House, the Cape should have 61, the Transvaal 57, and the two smaller provinces 16 each.

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NEW ZEALAND

I. ECONOMIC AND FINANCIAL LEGISLATION

ON March 17 the Prime Minister moved the second reading of the Finance Bill, which (*inter alia*) made a 10 per cent. cut in civil service salaries and gave power to the Arbitration Court to revise wages payable under awards. A wrecking amendment moved on behalf of the Labour party having been defeated by 46 to 21 and the Bill read a second time, the Labour party organised its forces for a stubborn stand on the committee stage. In opening the debate the Prime Minister had declared that "every attempt should be made to see that the cost of living is brought down so that in the end the real wages will not be different." So Mr. Fraser, member for Wellington (Central), opened the attack in the committee with a cleverly devised instruction to the committee of the whole House "That it hath power to make provision in the Bill for ensuring that the cost of living, including food, clothing, and rent, be lowered simultaneously with, and in proportion to, the amount of reduction in the salaries of the Public Service employees as specified in Part I of the Bill; and simultaneously with, and in proportion to, the amount of reduction in wages as ordered from time to time by the Arbitration Court under Part II of the Bill." The Speaker ruled that the instruction was in order, but it was defeated. The Labour party stubbornly continued their stonewall tactics. Hitherto, there had been no provision for any

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form of closure in the Standing Orders of the House of Representatives, which had relied upon a time limit and the sweet reasonableness of members to keep down the length of speeches, and so from March 23 to 27 the Opposition were able to waste the time and money of the country in obstruction that obviously could achieve nothing. A new standing order, to operate during the currency of the twenty-third parliament, has, however, now been passed, which, subject to certain conditions, enables a question to be put and a motion to be carried without further debate.

After numerous amendments had been made and the closure applied on three separate occasions, the Finance Bill was read a third time with two alterations suggested by the Leader of the Reform party. The first enabled railway servants to arrange with the general manager for the manner in which their wages were to be reduced and for their exclusion from the operation of the Act, provided that the reduction was not less than that prescribed in the Act, while the second enabled the Governor-General to make regulations for the relief of cases of hardship, and thus to give effect to the Prime Minister's promise to set up a hardship tribunal to deal with the cuts in the civil service. The Bill came into force on April 1.

Two emergency Acts had smooth and rapid passages. The first, the Mortgagors' Relief Act, applies to mortgages and other secured loans and to agreements for the sale of land. It entitles the mortgagor or purchaser to receive notice before powers of sale or other rights are exercised against him by the vendor or mortgagee (even if it is the Crown), and empowers the courts in certain cases to grant him a respite.

The second, the Immigration Restriction Act, which was called for by the Unemployment Board owing to the influx of unemployed from Australia and elsewhere, was generally considered to be a necessary measure, but it was subjected to a certain amount of criticism on account of the unrestricted power which it gives to the Government, for any economic

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or financial reason, to issue Orders-in-Council prohibiting persons of any specified nationality or race, or of any specified class of occupation, from landing in New Zealand. No such person may land without a permit granted by the Minister of Customs. The Act is to continue in force until December 31, 1933.

On April 8 the Prime Minister moved the second reading of the Bill to provide relief in connection with the Hawkes Bay disaster. Shortly after the earthquake he had announced that the State Fire Insurance Office would make *ex gratia* payments to people insured by it against the risk of ordinary fires only, if their property had been destroyed or damaged by fires arising out of the earthquake. The total amount of such payments was stated to be about £50,000. The other insurance companies, whose policies also exclude the risk of fire damage as a result of earthquakes, have not, however, followed the lead of the State Fire Office.

The original idea of the Government and of the business community in the earthquake area was to raise a special loan on the London market, but, on making enquiries, the Prime Minister considered that the sensitive condition of that market made it unwise to seek a loan there. In the Bill, therefore, he proposed as a first instalment to make available a sum of £1,500,000 to be borrowed from the Reserve Fund, a nest egg of liquid securities kept in London for realisation in case of emergency. Of this sum £1,250,000 will be used to assist, either by grant or loan, persons who have suffered loss by reason of the earthquake, and £250,000 will be available for loans to local bodies. The Bill proposed that the loan from the Reserve Fund should be recovered by means of a special insurance tax of 1s. 6d. per cent. on the value of insured property to be paid by insurance companies, which would then add the amount to the insurance premiums payable by their clients, and by means of an insurable property tax of 1s. 6d. per cent. on the value of uninsured buildings and their contents

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When the loan from the Reserve Fund was repaid, say in five or seven years, the proceeds of the tax were to be devoted to building up a fund to meet similar emergencies in the future.

The Bill also set up (a) an adjustment court consisting of the Chief Justice and two nominated members to deal with rights and obligations affected by the destruction of documents, etc., and with applications for relief from obligations and encumbrances which as the result of the earthquake have caused hardship—a court clothed with “extraordinary powers,” to use the Prime Minister’s own words, of interference with the law of contract, and with the right to accept any evidence it thinks fit, to hear proceedings in camera, and to make such orders as it deems just and equitable, and (b) a rehabilitation committee of five persons appointed by the Minister of Finance to consider applications for assistance.

An amendment moved by Mr. Barnard, member for Napier, was a fair indication of the views of the Hawkes Bay people. It suggested the following steps: a loan of four millions, further negotiations with the Fire Underwriters Association to obtain the co-operation of the fire insurance companies in ascertaining losses and making financial assistance available, the immediate completion by the Public Works Department of the demolition of ruins and the removal of debris in Napier—the cost to be found out of the fund—and the acceptance of the general rule that houses and household goods destroyed or damaged should be restored as a free grant to the full extent of the loss sustained. Mr. Barnard said that estimates of the number of applications for relief ranged from 8,000 to 40,000. Other members from Hawkes Bay constituencies insisted that from $4\frac{1}{2}$ to 5 millions would be required. The criticism of the Bill in the House was sympathetic, non-partisan and constructive. Eventually it was referred to a Select Committee, which suggested an amended basis for the insurance tax and commended to the Government a

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series of resolutions framed mainly with the object of giving relief in cases outside the provisions of the Bill. But the hostility to the insurance taxes was so strong that Mr. Forbes decided to hold that part of the Bill over until next session. With this obstacle out of the way the Bill rapidly passed into law.

In the course of the final debate Mr. E. A. Ransom, the Minister of Lands, gave the House the following information :—

| | |
|--|------------|
| Total insurance cover on buildings and contents in earthquake area | £4,131,377 |
| Approximate estimate of losses caused by the earthquake: | |
| Government losses | 580,000 |
| Local body losses (including Napier Hospital) .. | 500,000 |
| Private and business losses | 2,200,000 |
| Total losses | £3,280,000 |
| Total financial assistance available or in sight, including £225,000 earthquake insurance payable by insurance companies | £2,226,000 |

The Adjustment Court and the Rehabilitation Committee have been formed on non-party lines and have started on their work.

In introducing the second Finance Bill on April 16, the Prime Minister stated that the estimated deficit for the current year was £5,500,000, and that the following economies were provided for :

| | |
|--|------------|
| Reductions in salaries and wages | £1,390,000 |
| Other economies | 700,000 |
| Use of reparation moneys | 330,000 |
| Additional postal revenue | 900,000 |
| | £3,320,000 |

leaving a gap of £2,180,000, to meet which proposals would be made in June.

The No. 2 Bill provided for a number of economies,

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including the payment to the Consolidated Fund of the amounts saved by the "cut" effected by the Finance Act, No. 1, in the salaries of employees in the trustee and insurance departments. Considerable opposition was raised both inside and outside Parliament to the transfer from the government Life Insurance Department, on the ground that it had been widely advertised that all the profits of that department belonged to the policy holders. Other economies consisted of the reduction of the family allowances from £4 to £3 12s., and of the maternity allowance paid under the National Provident Fund, popularly called the "Baby Bonus," from £6 to £4, the abolition of certain educational bodies, the combining of secondary and technical schools for purposes of control, and the abolition of certain scholarships. Power was also given to the Governor-General to regulate the import and export of coined silver. Certain clauses of the Bill met with opposition from the Labour party, but it was eventually passed practically unaltered.

The legislation promised for the "depoliticisation" of the railways took the form of the Government Railways Amendment Act 1931, which met with a good deal of hostility. Mr. Coates, the Leader of the Opposition, agreed that the railways should be freed from political control, but he argued that the Bill fell short of its objective. Mr. Holland, the leader of the Labour party, urged that co-ordination of transport was required rather than depoliticisation. Other members suggested that the Bill should have come up at the same time as the Transport Bill. In its original form it set up a government railway board of three, but made no provision for the investigation by the board of the position of new railways now in process of construction, notably the South Island Main Trunk line, about which there has been much controversy. The inclusion of this power, suggested by the Opposition, was agreed to. The membership of the board was eventually increased to five; the Chairman to receive £1,000, and

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each of the other members £500 a year and travelling allowances.

The general functions of the board, which has already been constituted and has begun to function, are to manage the railways on the most economical lines as a public service in the interests of the people of New Zealand and as an essential factor in the development of trade and industry, with a view to obtaining the maximum of efficiency and maintaining a proper standard of comfort and convenience. The functions (with certain exceptions) of the minister, the general manager and the permanent head of the Railway Department are transferred to the board, which is to appoint and control the staff—the general manager, however, being appointed by the Government on the recommendation of the board. The board may not purchase land for more than £1,000 without the approval of the Government, nor without the approval of the minister purchase stores where the total amount under any contract exceeds £10,000.

New lines are not to be constructed until a report has been laid before both Houses of Parliament and a resolution approving the work has been passed by them, similar provision being made for the curtailment of work upon any railway under construction.

The board may close unprofitable lines, and, with the approval of the Government, dispose of land and other property in respect of such lines. The minister may order inspections and direct inquiries into accidents.

II. THE POSITION OF PARTIES

THE session ended on April 27, having lasted nearly seven weeks in lieu of the three that Mr. Forbes anticipated. The Prime Minister bore the burden of the work practically single-handed, for he piloted through all the Bills himself, showing himself as strong in determination as in physique, and his almost phlegmatic

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imperturbability proved a valuable asset throughout the strain of the Labour obstruction.

During the session, petitions were presented to the Prime Minister and the Leader of the Opposition from commercial circles, in identical terms, urging the necessity for the establishment of a national government comprising the United and Reform parties. The day after the session closed, the Prime Minister, in a dignified statement to the press, called attention to "the necessity of having a strong government to control affairs while the Dominion is passing through the present serious economic crisis," the issues being "too serious to allow of personal or party considerations standing in the way of securing the strongest possible government to control the affairs of the Dominion," and he expressed his feeling that the time had arrived for the formation of a national party, which would go a long way toward the restoration of confidence both in the Dominion and in the Old Land. On behalf of the members of his party, who were unanimously behind him, he therefore invited Mr. Coates and his party, and all others who had the best interests of the Dominion at heart, to co-operate in the formation of such a party.

To effect this (he said) my colleagues have intimated to me their willingness to place their resignations in my hands, so that the leader of the new party, when selected, will not be hampered in any way in his choice of a cabinet. And to provide that the question of leadership shall not be an obstacle in the way, I am prepared to abide by any decision of the new party in regard to this matter.

The Reform leader made his reply on May 6. He declined to join in what he stigmatised as an attempt to remove from the electors the right to determine whether the United party was entitled to change its declared policy. The Reform party's policy had not changed, and the United party's alliance with the Labour party, based on a common animosity against the Reform party, had come to an end, not because the United party was converted to the

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Reform policy, but because Labour was dissatisfied with the latest policy of the United party—a policy, by the way, which is in the main identical with the one suggested by Mr. Coates himself and recognised by the bulk of the community as necessary to weather the storm. Reform declined to become part of a party influenced by fear of the accession of Labour to power, for fusion in a national party would, in his opinion, set up class government. The Reform party claimed to represent the whole people, was proud of its record of service, and declined to be torn up by the roots at a moment's notice. He considered that the proposed new party would contain none of the elements of stability or harmony and all the seeds of inefficiency. Comparative absence of criticism in matters of administration did not mean that the Reform party possessed any substantial degree of confidence in the administrative ability of United ministers. Mr. Coates closed his statement with the suggestion that the present Government should carry on "with the Reform party supporting such measures of economy and finance as the present crisis demands," and that he was prepared to furnish a small committee of Reform members to confer with ministers before legislation was introduced.

The contrast between the statements of the two leaders seemed at the moment to have raised the *mana* of Mr. Forbes and depressed the stock of Mr. Coates. Negotiations were closed by Mr. Forbes on May 13 with an "appeal to every one in the community for co-operation and support in facing this grave national crisis." In view of Mr. Coates' rejection of his offer, he said, "it remains for me and the Government over which I preside to do our best under the circumstances. Measures covering the postponed portion of the financial policy will be submitted to Parliament early next session, and the Government will stand or fall by their acceptance or rejection."

The result of the Hauraki by-election, held on May 26, following the death of Mr. A. W. Hall (Reform), caused

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jubilant in the ranks of the Reform party. It seemed to have justified Mr. Coates' refusal to fuse, and he had an enthusiastic reception on his subsequent visit to the South Island. The leaders of all three parties took part in the campaign. The result, as compared with 1928, was as follows :

| | | 1931. | | 1928. |
|---------|---------------------|-------|------------|-------|
| Reform | .. Mr. W. W. Massey | 4,023 | Mr. Hall | 3,826 |
| Labour | .. Mr. C. R. Petrie | 2,599 | Mr. Petrie | 2,411 |
| United | .. Mr. E. Allan | 997 | Mr. Allan | 2,935 |
| Country | .. Mr. A. A. Ross, | 513 | | — |

The drop in the United vote is probably accounted for by the transference of some United votes to Reform and Labour. Mr. Massey is 49, a farmer, son of the late Prime Minister, and has been identified all his life with the district. His personal popularity, his disagreement with the 10 per cent. cut in wages, his advocacy of a cut on a sliding scale, and his promise to give the civil service equal treatment with other sections of the community doubtless account for the substantial number of United votes that he received, which otherwise would have gone to Labour.

III. UNEMPLOYMENT

THE schemes of the Unemployment Board in operation during the past quarter have been Nos. 4 and 5. The former was to assist farmers to employ men in ordinary development work; the latter, which has been operating since February 9, provides for free labour on a rationed basis, the work to be found by local bodies, and the Unemployment Board to be responsible for wages. The scheme provides work at relief rates (9/- a week for single and 12/6 for married men), two days a week for a single man, three for a married man with a wife and/or two children under 16, four for a married man with a wife

Unemployment

and/or three or more children. On the coming into operation of these schemes the number of unemployed bounded up; this was accounted for by heavier registration, by the dismissal of employees in consequence of the relief provided by the State, by the registration of farmers and their sons whose income had vanished, and of many persons with means of their own. All this meant stricter supervision and increased work in eliminating the ineligible.

From the end of February the bulk of the unemployed have been working the number of days contemplated by the scheme, which varies with their status. On June 1 42,523 were registered as unemployed, of whom 35,077 were placed, leaving 7,446 without work. The drain on the funds of the board was so great that at the end of March the amount paid weekly in wages was almost double the receipts from the levy plus the 50 per cent. subsidy received from the Consolidated Fund. In consequence, the scheme had to be suspended altogether from April 11 to April 27 inclusive. And as a result of the drain on the funds, the rules relating to the granting of relief were tightened up, and several classes previously eligible were made ineligible. During the suspension, doubtful cases were investigated to make sure that work was provided only for genuinely unemployed wage-earners. Relief was also granted for three weeks only out of four, and a rule made that no work should be provided for any man who had not paid his 30s. annual levy. The following grants testify to the efforts of the board to encourage development work :—

£5,000 to the Native Trustee, to be followed by a loan of £15,000 for development work on sheep stations administered by him, whereby 500 men will be employed for four months.

£2,000 to the Mines Department to give employment to 100 married men on prospecting.

Subsidies of £15,588 for a loan raised by the Auckland City Council for work on the new water front road; of £3,000 for a land drainage scheme on the Hauraki plains, estimated to cost £12,000; and a loan of £650 to Kauri Gum Control Board.

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Schemes are now in preparation for the absorption of the unemployed in clearing and developing crown lands, rehabilitating abandoned farms, in drainage work, in reclamation for the purpose of afforestation, and clearing away noxious weeds ; attempts are also being made to encourage the pig industry, to increase production by farmers, to develop existing and to establish new secondary industries and to give preference to articles of New Zealand manufacture wherever possible.

The difficulty of carrying out schemes on a large scale is the lack of funds, as the following figures show :—

| | | | | | | | |
|--|----|----|----|----|----|----|-----------------|
| The receipts from the unemployment levy to April 30 | | | | | | | |
| were | .. | .. | .. | .. | .. | .. | <u>£306,069</u> |
| The commitments (covering various periods not yet completed) to May 16, 1931, were as follows :— | | | | | | | |
| Scheme No. 1 | .. | .. | .. | .. | .. | .. | £32,576 |
| „ „ 2 | .. | .. | .. | .. | .. | .. | 34,953 |
| „ „ 3 | .. | .. | .. | .. | .. | .. | 8,789 |
| „ „ 4 A and B | .. | .. | .. | .. | .. | .. | 56,725 |
| „ „ 5 | .. | .. | .. | .. | .. | .. | 371,302 |
| „ „ 5 (revised) | .. | .. | .. | .. | .. | .. | 150,000 |
| Miscellaneous subsidies, grants and loans | .. | .. | .. | .. | .. | .. | 60,583 |
| Total Commitments | | | | | | | <u>£714,928</u> |

There has also been a great deal of unemployment among women, and the women's societies have been opening bureaux, keeping registers and appealing to housewives to help by giving a home and wages, even if they are only nominal, to those out of work.

On April 16 Mr. H. E. Holland, leader of the Labour party, moved the adjournment of the House, and a discussion took place on the question of suspending No. 5 scheme, on reducing the wage rate, and on the "no levy no relief" decision. He saw no reason why the Government and the board in co-operation should not put the men to work on undertakings of economic value. After a vigorous defence by the Minister of Labour, in which he

Wage Reductions

appealed for more assistance and less criticism, the motion was talked out.

On June 11 the Prime Minister announced that as the board had been spending over £2,000,000 a year on unemployment relief, whereas the amount available is less than £1,000,000 a year, the No. 5 relief scheme would be suspended as from June 20. He appealed to local bodies and unemployment organisations to use every endeavour to minimise distress until Parliament was able to deal with the position. In response, however, to appeals from all sections and all parties, he agreed to allow the scheme to continue and to ask Parliament to ratify his action.

IV. WAGE REDUCTIONS

THE Court of Arbitration consists of a judge, of a representative of the employers and a representative of the workers. On May 12 it commenced its sitting with the hearing of an application from the New Zealand Employers Federation for a general order varying all awards under section 16 of the Finance Act, 1931, according to which the court has to take into consideration the economic and financial conditions affecting trade and industry in New Zealand, and all other conditions that it deems necessary. The Act also empowers it to vary rates of pay as it thinks just and equitable. On the one side the leading employers associations were represented, on the other the New Zealand Trades and Labour Councils Federation and numerous unions.

The case for both sides was put with ability and restraint. Mr. T. O. Bishop, the representative of the employers, thanked the advocates on the workers' side for their courtesy and moderation, while Mr. Justice Frazer, at the conclusion of the hearing, expressed his appreciation of the thoughtful and able manner in which the arguments had been presented and the feeling of good fellowship and the desire to understand the other man's point of view that had been exhibited.

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The arguments, briefly, were as follows. The employers contended that there was a precedent for existing legislation in that wages had previously been adjusted both upwards and downwards during the currency of awards, that awards did not constitute contracts, that there had been an all-round fall in values of produce, and as the price which the farmer gets is generally governed by the export price, and as he has to meet the world's most efficient and economical producers in open competition, his costs have to be kept at the lowest possible point. Otherwise he would be unable to carry on. Hence the necessity for adjusting the cost of labour both in production and distribution. The employers asked for a reduction of 20 per cent. in the money rate of wages, and predicted that if it were made all internal costs would be reduced, output improved, and confidence renewed throughout the whole industrial field.

This demand was met by Mr. J. Roberts, for the unions represented at the recent national conference, with a counter-demand for an increase of 15 to 20 per cent. in wages which, he said, was necessary on the supposition that the number of hours worked on an average during the past year by workers receiving an hourly wage had been taken as the basis on which the present wage was fixed, provided that the workers were to retain their accustomed standard of life. A large number of witnesses, including some Labour Members of Parliament, were called on behalf of different unions. The workers' case was that rationalisation of industry and the introduction of the machine had turned the mechanic into a casual labourer in his particular line, and made the unskilled worker's job even more casual. If wages were fixed only according to the time that the worker was actually engaged, he should receive a sustenance wage when not in employment. A large amount of rationing was going on in the different trades. Award wages were only a minor factor in farm costs. The farmer's economic difficulties were due to the

Wage Reductions

high price of land, the high rate of interest, and the deterioration in the quality of cheese. Acting on the 1922 judgment of the court, the workmen had incurred responsibilities on the basis of their then incomes in borrowing to build their houses, in respect of which they had to pay interest and other irreducible charges. Reduced wages meant reduced purchasing power, which meant reduced output. A reduction in wages would not be passed on to the consumer. A reduction in the standard of living of the wage-earner meant an impairment of his efficiency. For several years there had been a progressive increase in the volume of production per head of the population, and with better methods this increase could be extended. Such an advance in output justified raising the standard of living of the wage-earner. The 1914 standard of living was a fair one in 1931, and any reduction of wages would plunge the workers far below the 1914 standard, because of the periods of unemployment.

The decision of the Arbitration Court was published on June 1. With certain exceptions, it made the following order :

Reduction of 10 per cent. in all money rates of wages, including overtime and other special payments. The order applies to all awards of the Court, industrial agreements, and agreements registered under the Labour Disputes Investigation Act, 1913. The order comes into force on June 8, except in the case of workers whose wages are calculated on a monthly basis. In their case, the order operates as from June 1. The Finance Act makes provision for any union to apply to the Court on special grounds for exemption of all or certain classes of its workers from the provisions of the order.

The Judge, in a memorandum, pointed out that the Finance Act of 1931, unlike the Act of 1921-22, omitted all direct reference to the cost of living and a living wage, and made the economic and financial conditions affecting trade and industry the paramount consideration. He considered it clear that an award or industrial agreement was not a contract, but merely a document setting out the minimum

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terms and conditions upon which a contract of service might be entered into. The national income had been substantially reduced and with that reduction there must come a general readjustment of the distribution of that income. Wages are, in the ultimate analysis, paid out of the proceeds of production, and the proceeds of production are barely two-thirds of what they were a year or two ago. The capital losses on representative industrial and commercial stocks during the past 18 months had been from 20 to 50 per cent. While a reduction in the rate of wages would not materially benefit the farmer as a direct employer of labour, he would derive considerable indirect benefit from such a reduction. Neither Parliament nor the Court could control rates of interest, which depend on the relative supply of and demand for loanable capital. It had been contended that a reduction in rates of remuneration would detrimentally affect internal trade by lowering the purchasing power of the community. But the reductions in award rates of wages in New Zealand necessitated by the depression of 1921-22 were followed within two years by an increase of 7,345 in the number of workers employed in manufacturing industries and an increase of £896,065 in the amount of wages paid. The position of the bond-holder could not be assailed without repudiating the bond, and repudiation would deal a more serious blow to our national credit than any temporary gain would compensate. If the March, 1931, cost-of-living index were taken, a reduction of 10 per cent. from the average rate of wages would leave the same purchasing power as in July, 1914. During the past two years there had been a drastic contraction in capital values and profits. It was probable that an adjustment of prices and wages to meet world conditions would give an impetus to industry, in which there is at present a distinct hesitation to make any forward move. Real wages, as distinguished from nominal or money wages, would tend to increase. It is economically impossible to maintain money wages at their present level.

Defence

While the economic and financial conditions affecting trade and industry, taken alone, would justify a reduction of 15 or 20 per cent. in award rates, an allowance should be made for the admitted, though unascertained, drop that had already taken place. A reduction of 20 per cent. would involve a considerable reduction in the standard of living below what was indicated by the cost-of-living statistics. The position should also be considered of those workers who were paying off the purchase money for their homes. Though the houses were not all bought when prices were at their peak, housing costs are fixed charges and represent the largest single item in household expenditure. A reduction of 20 or even 15 per cent. would discourage thrift. Hence one of 10 per cent. would, in his opinion, give relief to producers and consumers by lowering the costs of production and distribution and yet would not inflict undue hardship on the workers. Manufacturers and traders should pass on the benefit of reduced costs to their customers.

V. DEFENCE

ON May 19 Mr. Cobbe, the Minister of Defence, announced the reorganisation of our defence forces on a basis of voluntary enlistment. The following are the essential features of the scheme :

(a) The rapid mobilisation of a force of 9,982 men for home defence or for service overseas.

(b) The maintenance of the divisional organisation which has existed ever since the great war.

(c) The retention of the present Territorial units with their identity and traditions.

(d) The maintenance of a small but highly trained permanent force for the instruction of the Territorial Force and Cadets and for peace administration.

Each of New Zealand's three commands will, as heretofore, be required to provide : one brigade of mounted rifles ; one brigade of infantry ; one field artillery brigade and other artillery units ;

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an engineer field company; a signal depot; an army service corps company; and a field ambulance.

Every encouragement in instruction and equipment is to be given to secondary school cadet corps, estimated to number 16,300 boys.

Enlistment in the Territorial Force will be accepted from men between the ages of 18 and 25 for a period of three years, and provision made for extending service up to the age of 30.

For the present, training throughout the year will be limited to six evening parades, two half-day parades, six days' continuous training in camp, additional training to be arranged whenever possible. Courses of instruction will be held from time to time at the training depot, Trentham Camp, and in commands.

Pay and allowances will be the same as those at present laid down by regulations for the Territorial Force.

Criticising the scheme, the *Dominion* (Reform) of Wellington pointed out on May 20 that a volunteer force was not in the past and will not in the future be regarded as a serious preparation for national defence, that the voluntary system, man for man, will cost more than the present compulsory scheme—a prediction which Australian experience has already verified—and will mean a greatly reduced strength, and that by abandoning its principle of universal service “the State is relaxing its control of thousands of youths who are in need of disciplinary influence at an impressionable age, thus weakening their sense of civic responsibility.”

VI. THE TARIFF WAR WITH CANADA

IN an earlier number,* an incident in the negotiations between Australia and New Zealand was described as showing “that where trade is concerned Imperial sentiment weighs very little in the scales as against business interests.” The same remark might be made to-day of trade relations between New Zealand and Canada. Despite all the talk at Imperial Conferences about imperial preferences Canada

* THE ROUND TABLE, No. 54, March 1924, p. 426.

The Tariff War With Canada

and New Zealand are indulging in "a policy of mutual boycott."

The high rate of duty imposed upon New Zealand butter has brought the export of that article to Canada almost completely to an end. On August 21, 1930, our Government retaliated by placing Canadian motor vehicles on the general tariff, thus increasing the duty from 26 per cent. to 50 per cent. Mr. Forster hoped that his visit to Canada might result in more harmonious relations, but at last the New Zealand Government has been forced to the conclusion that there is no immediate prospect of detailed negotiations or of any effective mitigation of the unsatisfactory treatment of New Zealand butter. Hence the tariff was amended as from June 2. The British preferential treatment accorded to many classes of Canadian goods was withdrawn and they have been placed on the general tariff list. The rates on Canadian rubber tyres, motor vehicles and engines for motor vehicles fixed in August, 1930, have not been altered and all Canadian goods exported from Canada before June 2, 1931, will be admitted at the rates of duty in force immediately prior to that date.

On June 2 the Prime Minister published the text of a telegram addressed by him on May 26 to the Prime Minister of Canada, in which, after describing the position and the failure of the negotiations, he stated that the New Zealand Government, on the ground that mutual sacrifices were necessary to develop inter-Imperial trade, had refused to yield to strong pressure to increase the duties on Canadian goods which could be produced in New Zealand or to impose dumping duties on specific Canadian imports.

But now (he continued) when economic conditions in New Zealand are particularly difficult, the Government is faced with the position that substantial remissions of duty are granted here to Canadian goods without corresponding advantages to New Zealand. It is obliged to consider increased taxation to balance the budget and therefore it intends on June 1 to increase duties on many lines of Canadian goods . . . The Government, however, would still

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welcome early negotiations to end the present unsatisfactory position, and as already advised would be happy to receive a Canadian minister here for that purpose at the earliest possible date.

The following figures give some idea of the trade between New Zealand and Canada before the tariff war. The importations of New Zealand butter into Canada in the year 1929-30 amounted to over \$13,500,000. The total value of the exports from New Zealand to Canada in 1929 was £3,353,975. The value of goods imported into New Zealand from Canada in 1929 was £4,774,493 or 9·81 per cent. of the Dominion's total imports. Imports from Canada into New Zealand ranked third after those from Great Britain and the United States. The result of the new tariff is that Canada's trade with New Zealand in motor vehicles and parts and New Zealand's exports of butter to Canada have both fallen away to practically nothing.

New Zealand.

June 27, 1931.

NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of THE ROUND TABLE in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way THE ROUND TABLE will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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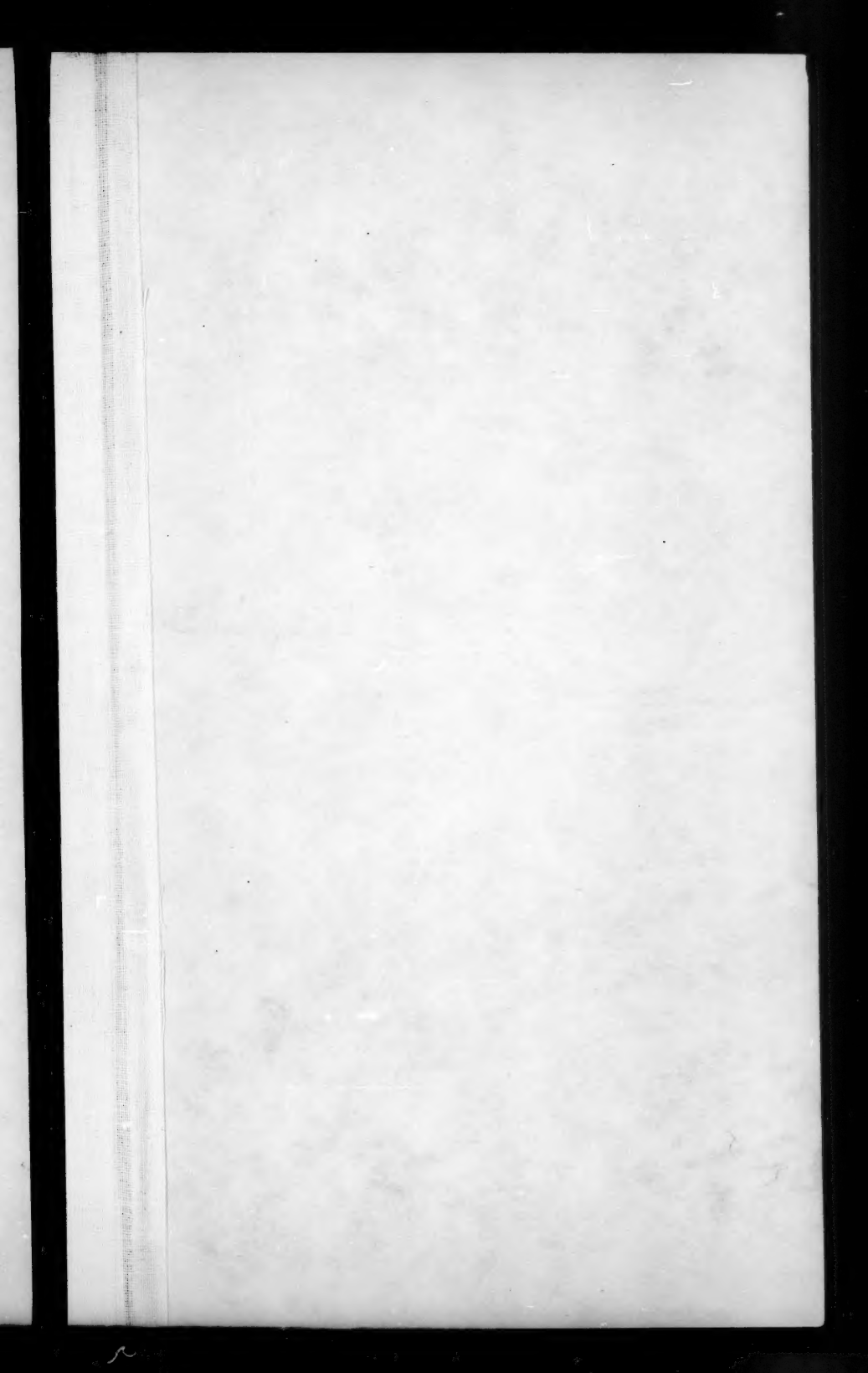
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A NEW INDEX

Hitherto an index for the year has been included in each September issue of **THE ROUND TABLE**. The index has been confined to titles and sub-titles of articles, and this has restricted its value as a ready means of tracing references in back numbers, so an experiment is to be made with a much-enlarged index in which references to all the chief topics dealt with will appear. Unfortunately, it is impracticable to include the new index in the September issue; it will be published as a loose insertion in the December number, along with a title-page for the volume.



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